FOREIGN BANK ACT OF 1975

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON

BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 958

TO PROVIDE FOR FEDERAL REGULATION OF FOREIGN BANKS ESTABLISHING, ACQUIRING, OPERATING, OR CONTROLLING BANKS, BRANCHES, AND AGENCIES IN THE UNITED STATES, AND FOR OTHER PURPOSES

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FOREIGN BANK ACT OF 1975

WEDNESDAY, 28 JANUARY 1976

U.S. Senate,
Committee on Banking, Housing and Urban Affairs,
Subcommittee on Financial Institutions,
Washington, D.C.

The subcommittee met at 10:05 a.m., in room 5302 of the Dirksen Senate Office Building, Senator Thomas McIntyre (chairman of the subcommittee) presiding.

Present: Senators McIntyre and Stevenson.

Senator McIntyre. The subcommittee will come to order.

Today the subcommittee is beginning its inquiry into the issue of regulating foreign banking in the United States.

The subcommittee has before it for its consideration S. 958, the Foreign Bank Act of 1975, submitted by the Federal Reserve. I think the subcommittee will be well advised, however, to focus on the general issues presented, without unduly limiting ourselves at this time to any specific legislative determination.

In my opinion, the threshold question is whether there is any compelling need for any Federal legislation at the present time. It seems to me there is a burden of proof here which must be met by those proposing or supporting such legislation.

The subcommittee itself has the responsibility to examine whatever public policy considerations are legitimately raised by foreign bank activity in the United States and to then determine whether Federal legislation is in any way required.

For my own part, I approach these hearings with no preconceptions. However, there are a number of issues raised by the bill before us which are directly related to major inquiries already underway on this committee. The committee is engaged in reviewing the current regulatory financial apparatus with a view toward restructuring. The Subcommittee on Securities is engaged in a comprehensive review of the Glass-Steagall Act. This subcommittee is engaged in a comprehensive review of Federal branching policy. Therefore, it would seem more appropriate that these various issues be addressed in their proper context rather than in the context of legislation to regulate foreign banking.

At this time I would like to welcome as our first witnesses a panel. We are putting you two fine gentlemen together in order to expedite. Time considerations this morning are worse than fierce.

George Mitchell of the Federal Reserve Board and Deputy Secretary of the Treasury, Stephen Gardner. I want to welcome you both here.

I am sure, Governor Mitchell, you are aware of the arguments which certain subsequent witnesses will undoubtedly make in opposition to a number of proposals sought in S. 958. Our objective at the outset, therefore, will be to try to raise some of these objections in order that we may begin to identify the issues and then attach relative weight to them.

I would ask you to identify the other witness at the table for the record.

Mr. GARDNER. Deputy Assistant Secretary Robert Gerard from the Treasury.

STATEMENTS OF GEORGE W. MITCHELL, VICE CHAIRMAN, FEDERAL RESERVE BOARD, AND STEPHEN S. GARDNER, DEPUTY SECRETARY; ACCOMPANIED BY ROBERT GERARD, DEPUTY ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Mr. MITCHELL. Mr. Chairman, I will be able to shorten my remarks and will focus on the major problems that you have indicated.

The first point I would like to make is that banking in recent years has become a multinational business in keeping with the growth in international trade and investment.

U.S. exports and imports today are estimated to exceed 13½ percent of U.S. GNP Just 4 years ago that relationship was only 8½ percent. This is an increase in the importance of these activities of some 60 percent. That development has been reflected in the operations of U.S. banks abroad and also in the operations of foreign banks that have established offices in this country to conduct their international business.

The Board was motivated by three basic reasons to recommend the legislation embodied in S. 958. The first and most tangible reason is the rapid rate of growth of foreign bank operations in this country and their increasing importance to the functioning of our domestic money and credit markets as well as to international flows of funds. The second reason is the present patchwork system of State and Federal regulation that has resulted in illogical differences in the regulatory treatment of foreign and domestic banks.

Finally, international banking operations are best conducted in a certain regulatory environment that fosters long-range planning and development. Federal legislation providing national standards for the treatment of foreign banks in the United States would make for a stable regulatory environment in this country. Since U.S. banks are leaders in international banking, it would also contribute to an emerging pattern by which foreign banking authorities could be guided in their treatment of banking interest originating outside of their countries. Such a common approach would facilitate cooperation between national banking authorities and promote the development of international standards of banking soundness and competition.

As of September 1975, there were 181 foreign-owned banking institutions in the United States—defined to include agencies, branches, subsidiary banks, and New York investment companies

owned by foreign banks—compared to some 104 in November 1972. Their total assets have doubled from $24 billion in 1972 to $56 billion in 1975. The data on the overall growth of these institutions, while impressive, does not adequately portray the increasing importance of their impact on specific U.S. banking activities.

For example, in September, the U.S. offices of foreign banking organizations held $23 billion in total commercial and industrial loans. That amount was equivalent to a fifth of such loans held by the large domestic banks which report weekly to the Federal Reserve —approximately 350 of the largest banks in the country. As recently as November 1972. their share of this important market was only an eigth.

The second important activity of U.S. offices of foreign banks is their money market transactions. In September 1975, these offices had money market assets of over $12 billion, over half of which represented loans to and deposits with U.S. banks. Included are loans and deposits of $3.1 billion placed with U.S. banks by the U.S. banks by the U.S. offices of banks from continental Europe. U.S. offices of foreign banks also had substantial money market liabilities totaling $11.7 billion as of September 1975.

In September of 1975 their gross claims on foreigners were $16 billion and their gross liabilities to foreigners were $25 billion. Included in these figures are net advances of $8 billion from their related institutions outside the United States, which advances are used to finance their U.S. banking activities.

I think it is clear from these summary data that the size and growth of foreign bank operations and their impact on important credit and financial markets in the United States and their influence on the international payments position of the United States are matters of national importance. Furthermore, the size and character of these operations require that they be supervised and regulated in a manner consistent with the supervision and regulation of domestic banks.

Let me turn next to the current regulatory environment in the United States. If a foreign bank conducts its commercial banking operations in the United States exclusively through branch or agency forms of organization, it is currently not subject to any Federal regulation, supervision, or examination. As detailed in the appendix which accompanies this statement, foreign banks conduct the majority of their operations through these forms of organization. The present system thus unaccountably exempts from Federal oversight those operations that have the greatest potential for affecting our Nation's economy and its major financial markets.

The principal regulatory advantages for a foreign bank in operating through branch and agency forms of organizations are the following:

One: Branches and agencies are not legally subject to any of the reserve requirements or other regulations affecting monetary policy that are placed on the operations of their primary competitors, the very large national and State member banks.

Two: Branches and agencies are not subject to any Federal restrictions of multi-State banking and thus can be established in any State that permits entry.

Three: A foreign bank maintaining only branches and agencies is not subject to the prohibitions of the Glass-Steagall Act.
directly or indirectly in the United States in any type of nonbanking

Four: A foreign bank maintaining only branches and agencies is not subject to the Bank Holding Company Act and thus can engage activity.

Five: Finally, branches and agencies are not subject to any Federal bank examination, regulation or supervision of the type carried out by the Comptroller of the Currency, the Federal Reserve or the FDIC.

The current regulatory framework has however, also imposed artificial and outmoded restraints on foreign bank entry into the United States. For example, foreign banks cannot organize Edge Corporation subsidiaries that enable large U.S. banks to conduct international banking and financing operations in several cities. The provision in the National Bank Act that requires all directors of national banks to be citizens has been a factor influencing many foreign banks to organize State subsidiaries. Lack of any provision in Federal law for the establishment of Federal branches is in sharp contrast with the situation in most foreign countries, where foreign banks establish branches approved by the national government. For example, at the present time, U.S. banks have about 750 branches all over the world. They have about 50 banking subsidiaries. Obviously the preferred form of international banking operation is a branch

Finally, there is a lack of availability of FDIC insurance for deposits and credit balances at branches and agencies. This has proven to be a disadvantage in competing in retail markets. It also gives a cost advantage to foreign banks, since U.S. banks must meet FDIC assessments on similar liabilities.

Let me turn now to the major points of the Board's proposal. There are two goals involved in the legislation embodied in S. 958. The first goal is the adoption by the Federal Government of the principle of national treatment or nondiscrimination toward the operations of foreign banks in this country. Second is the goal of establishing a comprehensive system of Federal supervision, regulation and examination of foreign bank operations in the United States.

The legislation in S. 958 seeks to implement the policy of national treatment by amending U.S. banking laws to provide foreign banks with the same opportunities to conduct activities in this country as are available to domestic banking institutions and by subjecting them to the same rules and regulations. Thus, citizenship requirements for directors of national banks are relaxed. Foreign banks are given an opportunity to establish Federal as well as State branches. The Edge Act is amended to permit foreign banks, with Board approval. to acquire Edge Corporation subsidiaries. And finally, it is recommended that the FDIC Act be amended to permit branches and agencies to obtain insurance.

We would eliminate Federal regulatory gaps by amending the definition of "bank" in the Bank Holding Company Act to include branches and agencies of foreign banks. Any branch, agency or incorporated subsidiary of a foreign bank with worldwide bank

assets in excess of $500 million would be required to become a member of the Federal Reserve System, and would thus be subject to the same kind of Federal monetary and Federal bank examination, regulatory and supervisory controls that apply to other member banks.

In addition, I would emphasize that the legislation embodied in S. 958 does not undertake to supplant existing State regulation or to remove options of State chartering or licensing.

Turning briefly to the question of grandfathering, the grandfathering arrangements proposed in S. 958 have been patterned on the grandfathering policies that the Congress has adopted in the Bank Holding Company Act. Briefly. they provide for permanent grandfathering for all nonconforming banking and nonbanking operations—including securities affiliates—established by foreign banks on or before the original date of introduction of the Board's proposal in Congress—December 3, 1974.

I would now like to turn to the latter part of my statement because there are a couple of points made there that have not been made in previous statements by the Board on this proposal.

In transmitting its proposed legislation to the Congress, the Board indicated that its proposal would not cover foreign bank operations conducted through so-called New York investment companies, and would not specifically amend the Bank Holding Company Act in order to subject the several foreign bank shareholders of the European-American Bank and Trust Co. of New York to the provisions of that act.

Investment companies organized under article XII of the New York Banking Laws have many of the same banking and financing powers as agencies of foreign banks. Seven domestically owned investment companies appear to be primarily engaged in finance company operations; four foreign-owned investment companies are either subsidiaries or affiliates of foreign banks and appear to conduct the same type of commercial banking operations carried on by agencies.

In excluding foreign-owned investment companies from the coverage of its proposed legislation. the Board was primarily influenced by the fact that only three such companies would have been covered at the time it submitted its proposal and that the New York authorities had customarily discouraged chartering of these entities in lieu of branch or agency operations. The Board was also concerned that any attempt to cover only the few foreign-owned companies would be regarded as discriminatory by foreign authorities.

The Board notes that since submitting its legislation, the New York banking authorities have chartered an additional investment company subsidiary of a foreign bank and have received an application to organize another investment company from a private foreign bank. The Board understands, however, that the New York authorities are currently reviewing their policies on chartering investment companies.

The Board believes there is a potential for avoidance of the objectives of its proposed legislation if foreign banks can readily obtain investment company charterers in lieu of agency or branch

licenses. The Board thus recommends that all future investment companies that would be chartered to engage in a commercial banking business be subjected to the same scope of Federal regulation that has been suggested for agencies and branches in order to close a potential loophole.

With respect to domestic banks owned by several foreign banks, the Board notes that, in addition to European-American, the New York banking authorities recently chartered a new bank—UBAF Arab-American Bank—that will be owned by a group of 11 Arab banks, five foreign consortium banks controlled by Arab banks, and four domestic bank holding companies, the latter each having only a statutorily permitted 5 percent interest. The Board recently considered the question of whether a bank holding company was being formed in the organization of UBAF and determined that, on the basis of certain specific undertakings made by each of the shareholders of the bank with the Board, that a company had not been formed and that an application was not required under the act.

The cases of European-American and UBAF, among others, however, demonstrate that the current definitions of "control" and "company" in the act do not appear to cover certain multiple ownership situations where independent shareholders might act in concert to control a bank, but do not constitute themselves into a corporation, partnership, association or similar organization.

Since this consortium form of arrangement might become an attractive vehicle for entry if branches and agencies of foreign banks are subjected to Federal regulation under the Bank Holding Company Act, the Board recommends that Congress amend the Bank Holding Company Act to give the Board jurisdiction over situations where independent shareholders that do not form themselves into a company, as currently defined in the act, nevertheless act in concert to control a bank.

Since the scope and impact of any such amendment will depend, to a great degree, on the precise legal language chosen, the Board, at your request, will be glad to suggest an amendment to the Bank Holding Company Act and to describe the way in which such an amendment would affect the shareholders involved. It should be noted that any such amendment would apply to domestic as well as foreign companies and thus the Congress may also want to consider such an amendment in the context of Bank Holding Company legislation.

This Nation's domestic banking system is, of course, currently undergoing a thorough reexamination by the Congress and we at the Federal Reserve welcome this study and are glad to provide whatever assistance we may be called upon to give.

It is our belief, however, that the enactment of legislation regulating foreign bank operations in the United States should not await or be made contingent upon the resolution of more fundamental domestic banking issues, such as whether U.S. banks should be allowed to engage in multi-State operations or securities activities.

In our judgment, if foreign bank regulation is tied to such fundamental domestic changes, an undesirable end result will be the further postponement of the enactment of any legislation regulating

foreign bank operations in the United States. The longer such legislation is delayed, the more difficult will be our task in this regard, since foreign bank operations will continue to grow, thus making grandfathering proposals less acceptable and increasing the likelihood of retaliatory pressures against our banks abroad. The Board strongly recommends enactment of S. 958 during 1976.

Thank you.

Senator McIntyre. Thank you, Governor.

I take it you would like the appendix that accompanies your statement included in the record with your statement?

Mr. Mitchell. Yes.

Senator McIntyre. Without objection that will be done [see p. 56].

You have a seven-page statement, Mr. Secretary, I commend you for that. Try to make it as brief as possible, so we can get to the questioning.

Your appendix and statement will be included in the record in their entirety [see p. 219].

Mr. Gardner. Thank you.

I will not read the statement. I will briefly summarize it.

In many ways it is similar to the issues discussed in the Federal Reserve testimony which I read yesterday.

I would like to summarize it by addressing the issues you put before the hearing this morning.

Question: Why do we need to engage in specific regulation of foreign banks?

I think there are many good answers to this, and one most significant answer is that the regulation of foreign banks in the United States is very incomplete at the moment. It does not match in precision and span the regulation that occurs in our own domestic banks.

For that reason, and because of that situation, foreign banks enjoy some specific competitive advantages in the United States that are not available to domestic banks.

No. 2: The banking systems of any country have an unique role in the monetary and credit policies that are in effect in any such country.

This is a well-recognized principle, both here and abroad, and it is important that the instrument or intermediary, such as the commercial banking industry, be given Federal and State oversight, because the activities of providing credit, accepting deposits and making loans are, indeed, part of the whole monetary system of the country.

So I think banking with its unique role in credit and monetary policy should have complete oversight, and, indeed, regulation.

And at present, foreign banks in the United States are not under many of our regulatory oversight procedures.

I also would say, Mr. Chairman, that every other developed nation of the world regulates its banking industry very carefully, differently than we do, perhaps, but at least carefully.

Certainly, they regulate the activities of foreign banks within their borders. Some of them regulate foreign banks more heavily than we are proposing to do.

Some of them are less precise in their regulations of foreign banks. But it seems quite unusual to me that the United States does not have national oversight of foreign banks within its borders, except under certain specified forms of organization.

The typical pattern here has been that foreign banks have found their authority and approval from State regulatory agencies, have not been part of our Federal Reserve System, have not had deposit insurance, unless they chose to do so, and have not been subject to a national banking law.

I don't believe that the proposal before you, which I think is an excellent one and so state in my testimony, is inherently discriminatory to foreign banks. In reaching this conclusion, we have assessed and analyzed the U.S. policy towards foreign investment and we have carefully reviewed the activities of other regulatory agencies in other countries, and that review is in an appendix to my statement that you have before you.

I want to reiterate that every banking system is different in every country of the world, and it is an impossible task to simply attempt to rationalize our system with so many different systems, our system of regulatory oversight of banking.

Therefore, we have the opportunity to write on a clean slate. The proposal before us involves defining foreign branches and agencies as "banks" under the Bank Holding Company Act which would give the Federal Reserve significant powers of supervision and examination and the like.

It provides for membership for those banks with assets worldwide in excess of $500 million in our central banking system, with the same privileges that are available to domestic banks and the same constraints that are available to domestic banks. In the United States it is not mandatory that large banks or small banks be members of the Federal Reserve, but the fact is there are very few of our banks and none of the giant banks in the United States that are not members of the Federal Reserve System. This, indeed, is a compromise, an entry level.

It seems appropriate to the Treasury and the administration to require membership in our central banking system of foreign banks at a certain level of size.

The Comptroller of the Currency would play a role under this act. That role would give the Federal Government oversight of those banks that still seek State charters, because it would be necessary in addition to a State charter or State authorization for the foreign bank to get a certificate or license from the Comptroller of the Currency. This is certainly a reasonable provision, in my view.

I know of no, as I have said before, no country where banks can begin operation from abroad without having touched some base in the national government or central banking system.

The act also provides that in the event a bank does not seek a State charter, it can apply for what is equivalent to a national charter, also from the Comptroller of the Currency.

Again, we tie in the national oversight provision. The act itself specifies there be FDIC insurance as a mandatory requirement for operating foreign banks in the United States. The interagency position which the Treasury has adopted is that perhaps this can

be an optional requirement. As you know, most banks are required to advertise when they have FDIC insurance, so the consumer or borrower or the depositor, whomever he may be, will know the bank is insured.

The Federal Reserve proposes mandatory membership. I would like to just make a personal statement. My own experience is this:

We have perhaps the most highly-developed insurance system of deposits in the United States. We have found that a very effective system. As a former banker and speaking as an individual, I think it would be a shame if we weren't able to apply some insurance standards to foreign banks operating in the United States, because we are ahead of the rest of the world in that department.

With respect to the matter of defining foreign bank branches as holding companies and, therefore, subjecting them to the typical holding company regulations: the position we have taken in the Treasury is that this is a relatively artificial definition, and we ought to revise the act and be more specific in the law and write a foreign banking regulatory statute, rather than simply defining them as holding companies and, therefore, making them subject to the Federal Reserve oversight under existing law.

We say this, simply because it is an artificial definition in many respects and would perhaps cause later problems.

In any event, we agree with the thrust. We think the bill is an excellent basis from which to develop a foreign banking act. and we urge the Committee to give full consideration to doing that, because the need, in our judgment, clearly exists.

The rationale or appropriateness of doing it is absolutely justified in view of the activities of foreign banking regulators in overseeing our banks abroad.

And I think, depending on how the act is implemented, we can easily avoid any criticism of discriminatory or nonnational treatment of foreign banks.

Thank you.

Senator McIntyre. Thank you, Mr. Secretary.

My questions will be more broadly based with the understanding that we can submit more detailed questions, more specific questions later on in writing for the record, gentlemen.

Governor Mitchell, how do you respond to the allegation, the charge, that the basis of the bill, S. 958, is really Federal Reserve Board uber alles, above all, inasmuch as the Fed takes on to itself almost all Federal control, and is espousing, in effect, a policy of almost total Federal preemption of foreign banking activity? How do you respond to that charge, sir?

Mr. Mitchell. I would say in response that the domestic banks that foreign banks are competing with in the United States are all members of the Federal Reserve.

If they are national banks, they are required to be members. If they are large State member banks they are, almost without exception, members of the Federal Reserve.

Thus, the provision in S. 958 that requires foreign bank offices in the United States to become Federal Reserve members is based on the principle of subjecting all institutions of like size that are doing a like business to the same rules administered by the same regulatory authority.

Senator McINTYRE. Would you care to comment, Mr. Secretary, on that?

Mr. GARDNER. I must confess, Mr. Chairman, I don't see anything unique or unusual in having the Federal Reserve and our Comptroller of the Currency oversee the activity of the banking system.

Our Congress has in the last few years in regulating banks turned over almost every initiative that needed regulation by statute to the Federal Reserve, so I do not have the same opinion that the Federal Reserve is simply seeking to grow in power and stature by the regulation of foreign banks.

Senator McINTYRE. Senator Stevenson, I am following a 10-minute rule.

Senator STEVENSON. All right.

Senator McINTYRE. Governor Mitchell, on page 3 of your statement, and I will read, beginning almost the fifth line:

Federal regulation standardizing the national treatment of foreign banks in the United States not only would make for stable, very stable regulatory environment in this country, but since U.S. banks are leaders in international banking around the world, it would also facilitate cooperation between national banking authorities, contribute to an emerging pattern by which foreign banking authorities could be guided in the treatment of banking interests originating outside their countries and promote the development of international standards of banking soundness and competition.

Does this, sir, represent the opinion of other central bankers as to this bill?

Mr. MITCHELL. I think it represents a view that European central bankers would tend to endorse. The Common Market countries have a commission, as you probably know, that is engaged in rationalizing the regulation of banks in Common Market countries, that is, subjecting them to a comparable set of rules for their operations.

There are some industrial countries in the world that prohibit foreign banks. Canada is a good illustration.

A U.S. bank cannot establish a banking office in Canada. Canadian banks can, however, come here. U.S. banks can only go to Canada as leasing companies and finance companies, but not as banks.

Now, I think that the number of banks in the world that have both the desire and the capability of doing a multinational banking business is quite limited. It might be of the order of 100 banks. But there are some of these banks in all of the industrialized countries, and I think that the trend of the times is toward establishing common ground rules, so that banks in various countries can open offices in other countries where they have trade and investment interests, and can thereby promote the growth of international trade and international investment.

I believe that this trend is in their interest and ours.

Senator McINTYRE. Mr. Secretary, would you care to comment on that?

Mr. GARDNER. The point Governor Mitchell raises about Canada is, I think, very significant.

Here we are concerned about reciprocity and what other bankers might do. Yet one of our closest trading partners has no banking relationship with us except that they may come to our market in

various ways, and do. And our banks have a very difficult time getting comparable facilities and operations in their market.

I think we will find as we look at various countries around the world, each regulating our banks a little differently, that there would be a general understanding, full understanding, if the U.S. for the first time applied Federal oversight to the entry and activities of foreign banks.

I think also inherent in the question and in the Federal Reserve's need is the fact that when we do have difficulties, we ought to be able, as central bankers in this country or finance ministers in this country, to deal on a pari passu basis with the similar regulatory authorities abroad so that when something arises like a partially foreign owned bank that gets in difficulty, that we have some bridge and real basis for working with the central bankers of the world or their financial ministries to assure the sound working of the system.

Senator McINTYRE.

How about the central bankers of Japan?

Mr. MITCHELL. Well, we have talked to the Japanese Central Bank about our proposal and we have not received any objections to the proposal.

I might say that the Japanese banks in the United States have grown more rapidly than the banks from any other country, and I think by now they probably have more assets in the United States than the banks of any other country.

All of the major Japanese banks have offices in the United States today. If you look at the record of their participation in U.S. business, I think it indicates that they have accepted the opportunity to come here.

As far as the reverse of this is concerned, I think our banks feel that they have not had comparable opportunities to do business in Japan. But that could very well change. I might mention, in this regard, the case of Canada. I believe they are currently considering changes in their banking laws. One of the changes they are thinking about is admitting U.S. banks into Canada. How they will come out on that, I don't know.

But I think this reexamination of national attitudes toward foreign bank operations is an outgrowth of the emergence of the multinational banking organization and its development all over the world.

Senator McINTYRE. On page 5 of your statement, down near the bottom, you sum up and say:

> Thus, it should be clear from this summary data that the size and growth of these operations, their impact on important credit and financial markets in the United States and their influence on the international payments position of the United States are matters of national import.

The question is, there may very well be matters of national import, but are they causes for alarm?

Mr. MITCHELL. Well, I think that when a foreign bank competitor—let's take the commercial industrial loan market—has an advantage over a domestic bank because of its freedom from reserve requirements or because it is subject to different standards of regulation, that is unfair to U.S. banks.

The larger that competitor is and the larger he becomes, the more important these advantages are.

Senator McIntyre. Mr. Secretary.

Mr. Gardner. The situation is probably not critical, in my opinion, at the moment, but I think there is a clear need to provide an orderly pattern for the future.

The problem of the competitive advantage and the unusual opportunity for growth that I think exists in this country ought to be viewed, in my judgment, in the context of what kind of a market do we have here.

Here we have the most highly developed industrialized country in the world, with the world's trading currency as its currency, with a huge participation of consumers in banking services.

To me, if I were a foreign banker, it would be a very attractive market. I suspect that is the reason for the large growth in the last 5 years, and I suspect that as our—as the world moves on, I suspect more and more foreign banks will take advantage of some of the opportunities they have in this country.

I don't want to see them come here and take advantage of a laxity in regulation.

Senator McIntyre. My 10 minutes are up.

Senator Stevenson?

Senator Stevenson. Thank you, Mr. Chairman.

Governor, when does your term expire?

Mr. Mitchell. Whenever Steve gets over there.

Senator McIntyre. Next Saturday.

Mr. Mitchell. From what I heard as I walked in the room, I guess it is not going to be very long. Ask him; I don't know.

Senator Stevenson. Maybe I should ask the chairman. That was the point. It won't be very long.

Mr. Chairman, I just think we should take note of that fact for our record.

Senator McIntyre. Certainly will.

Senator Stevenson. Governor Mitchell has been a pillar of strength at the Federal Reserve Board.

I don't have any idea how many times you have appeared as a Member, and Vice Chairman of that Board in this room, but this may be the last time as Vice Chairman of the Board.

So I just want to, on my own behalf—and I dare say I do so on behalf of all members of this committee—to commend you for a long, constructive career at the Fed, for all the help you have given this committee in the past, and once again, today.

Now, Governor, to turn back to one of the chairman's questions about the suggestion that the Federal Reserve Board was preempting the regulation of the foreign banks. As I understand this legislation, the FDIC would remain in the picture.

FDIC coverage would be mandatory, as a matter of fact, is that correct?

Mr. Mitchell. Yes.

Senator Stevenson. The licensing authority would be in the Comptroller, is that correct?

Mr. Mitchell. That is right.

Senator Stevenson. And Federal Reserve membership would be required of entities with worldwide assets in excess of $500 million.

Mr. MITCHELL. Yes.

Senator STEVENSON. Can you tell us how many such institutions there are now of that size that are not members of the Federal Reserve Board?

Mr. MITCHELL. Well, there are, I think, three foreign-owned domestic banks that size that are not members. I know Lloyd's Bank in California is in excess of that size. In fact, if I recall correctly, it has over $1 billion dollars in assets. And I believe that there are several large nonmember banks in Pennsylvania and several other commercial States.

There may be as many as 20.

Senator STEVENSON. Foreign.

Mr. MITCHELL. No, domestic and foreign.

Maybe my number is wrong, Senator. I guess I better just supply that for the record.

Senator STEVENSON. Could we get that information?

Mr. MITCHELL. Of course. It's not a large number. It might be as many as 25.

[The following was submitted for the record:]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—NON-MEMBER COMMERCIAL BANKS WITH TOTAL ASSETS OVER $500 MILLION AS OF SEPTEMBER 1975

Bank Name	City Name	State	Total Assets (In Thousands)
Lloyds Bank California	Los Angeles	California	1,294,717
Bank of Tokyo Trust Co	New York	New York	1,283,892
Equitable Trust Co	Baltimore	Maryland	1,125,213
First-Citizens Bank & Trust Co	Raleigh	North Carolina	1,104,014
Northwestern Bank	North Wilkesboro	do	1,102,476
Continental Bank	Norristown	Pennsylvania	1,091,438
American Bank and Trust Co. of Pa	Reading	do	1,087,105
Arizona Bank	Phoenix	Arizona	1,035,162
Banco Popular de Puerto Rico	San Juan	Puerto Rico	1,034,909
Bank of Hawaii	Honolulu	Hawaii	1,033,861
Bank of Tokyo of California	San Francisco	California	1,002,712
Industrial Valley Bank & Trust Co	Jenkintown	Pennsylvania	996,456
First Hawaiian Bank	Honolulu	Hawaii	939,078
Suburban Trust Co	Hyattsville	Maryland	920,583
Old Stone Bank	Providence	Rhode Island	901,215
Wilmington Trust Co	Wilmington	Delaware	862,672
Banco Credito Y Ahorro Ponce	Ponce	Puerto Rico	782,222
Union Trust Co	New Haven	Connecticut	754,432
Sumitomo Bank California	San Francisco	California	723,522
Amalgamated Bank of New York	New York	New York	701,476
Banco de Ponce	Ponce	Puerto Rico	608,752
Marine Midland Bank-Rochester [1]	Rochester	New York	608,556
Northeastern Bank of Pennsylvania	Scranton	Pennsylvania	558,888
Bankers Trust of South Carolina	Columbia	South Carolina	553,346
Allied Bank of Texas	Houston	Texas	545,977
First Valley Bank	Lansford	Pennsylvania	537,073
Farmers Bank of the State of Delaware	Dover	Delaware	534,008

[1] As of Jan. 1, 1976 was merged into Marine Midland Bank, Buffalo, N.Y., a State member bank.

Senator STEVENSON. Are there any studies or do you have any opinion that you can give us about the effect of the noninclusion of such institutions on monetary policy, its implementation by the Federal Reserve System today, now, and if it is not considerable now, speculate a little bit about the future, the effect, if any, of nonmembership, on monetary policy in the future as well as now.

Mr. MITCHELL. The Board has represented to Congress on several occasions that membership ought to be broadened in view of the fact that it has been eroding rather substantially in the last 15 years.

In fact, I believe we gave the House Banking Committee quite a bit of information on this issue in response to certain of their FINE questions.

I believe our answer lists the number of banks and the banks that have withdrawn from membership over the past 15 years. And it is an impressive number. As I recall, it is something on the order of 700 banks that have given up their Federal Reserve membership, even though that meant giving up national status, which is widely regarded as an advantage by banks, that is, being a national bank is an important advantage in the minds of many bankers.

Still, we lost, if I recall, something like 700 banks in that interval.

I think that the erosion of membership is an increasingly serious matter, and many of the proposals for domestic reform contemplate doing something about that by universalizing reserve requirements.

It isn't that there is such a great difference in reserve requirements; it is the way in which reserve requirements are met.

I believe Milton Friedman testified before the House Banking Committee last week and said that if the Federal Reserve would pay interest on reserves, then that would make Federal Reserve membership highly competitive with the laws of many States which often permit banks to invest their reserves in government securities and thus earn a return.

Under Federal Reserve rules, a member bank can keep its reserves in cash which in any event it needs to have for operating reasons. But the rest of its reserves have to be kept with the Federal Reserve Bank of its district. This does give a member bank the benefit of a clearing balance. It can clear its obligations with other banks through that account. So that is a significant advantage of membership. But it is not as great an advantage as being able to invest those reserve funds in government securities and obtain an investment return.

Senator Stevenson. Is there anything you would like to add, Mr. Secretary?

Mr. Gardner. I think, as the Governor says, that the Congress is wisely considering some provisions for reserves being held or subject to the requirements as stated by the Federal Reserve.

I think that is very important, Senator. I think the Fed span of monetary control can be endangered if we do not have a good grasp of the reserve positions of those institutions which can accept time deposits.

I think it is also very clear that the growing foreign banking industry in the U.S. ought to be subject to some form of federally imposed reserve position requirements.

And so to me, the provisions of the bill for Federal Reserve membership are routinely good.

I think that—I know that the banking associations themselves have expressed opinions that if we can mandate foreign bank membership in the Fed, then we can mandate other kinds of membership in the Fed domestically.

I don't accept that argument.

I think there is a national reason for regulating foreign banks, and even if we made them class-2 members of the Fed, it need not interfere with the arguments and discussions that will go on about mandatory Fed membership for our domestic banks.

Senator McIntyre. Governor, on page 8, you say U.S. regulatory policy should encourage foreign banks to opt for national rather than State subsidiaries and branches, since those options would avoid problems of reciprocity between individual States and foreign governments.

What problems have there been, Governor?

Mr. Mitchell. Well, in New York, for example, there are reciprocity problems with Canada; a Canadian bank cannot open a branch in New York. They can, however, open an agency or a trust company. There are, however, important differences between agencies and branches, most notably in the area of deposit-taking powers.

I think that State reciprocity arrangements can often limit the areas in which a foreign bank can enter the United States. Texas is a case in point. It is difficult for a foreign bank to get into Texas because of the Texas law. It might be to the advantage of people in Texas who are doing an international business to have a foreign bank in Texas. But Texas has precluded that, although, I believe that there is a possibility that some foreign bank will get in there some day through a quirk in the law.

At any rate, the reciprocity provisions that exist, they either prevent entry of a foreign bank in a particular State or they condition it in a way which requires them to use a form of entry which has handicaps connected with it.

Senator McIntyre. There is a question suggested by minority counsel. Would you favor a Federal law that would override the Texas prohibition against foreign banks? The State of Texas, if they don't want these foreign banks, would you favor a national policy that would allow foreign banks to go into Texas, despite Texas feeling?

Mr. Mitchell. Yes; I think the international relations of the United States are a matter for national policy and not for Sate policy.

Senator McIntyre. Mr. Secretary, I want to go to your statement briefly here, page 2, down at the bottom. You say the proposed bill arises out of the following conclusion, that all new foreign bank entries into the United States in the future should be subject to a uniform Federal entry requirement.

Why?

Mr. Gardner. My view, I have tried to express my view, Mr. Chairman. The activities of U.S. banks abroad are subject to a uniform national policy of the countries in which our banks operate. This gets back to the question of reciprocity.

I would like to add that in many countries, as I know you are aware, banks are allowed to do things under the securities laws in the issuance and underwriting of securities that they are not allowed to do in the United States. I think it is much sounder to have the Federal Government decide whether indeed it is the Federal Government which prohibits banks from entering the securities market when our entry requirements are in foreign banks.

The simplistic approach is to have the Federal Government, which does control the broad policies of banking in the United States and leaves to the States many of the organization and chartering and branching provisions, it is far better to have the Federal Government develop the criteria for the entry of foreign banks.

As you know, there is no State in which a domestic bank can engage in the underwriting of securities generally as most banks do in Europe. That is not a State initiative. That is a federal law. That is the simple reason that I think it is better to have Federal criteria for entry in addition to whatever State criteria may be established.

My answer on the State of Texas and the question to Governor Mitchell would be slightly different. I think we do have a dual banking system. We would like to see that dual banking system progress. But as long as the citizens of a particular State are absolutely against such details in banking as branching or entry of foreign banks, then it seems to me that that is another reason for having the Comptroller of the Currency license banks, because I would think their responsibility for licensing banks would be to see that there was no conflict which in his judgment was important enough to cause him to deny the license.

So he is going to look at the State laws. We cannot have banks coming into a State that doesn't permit domestic branching and escape from our domestic requirements. I think it is very wise to have criteria for entry established at the Federal level.

Senator McIntyre. National banks can move into Texas, why not foreign banks?

Mr. Gardner. National banks can be formed in Texas, Mr. Chairman. To my knowledge they cannot move into Texas from another locale.

Senator McIntyre. In your statement you say, finally, we believe that the Bank Holding Company Act should not be used as a device for the application to foreign banks of certain substantive positions embodied in that act. In our view this approach invites confusion in the law which outweighs the burden of the additional drafting that might be involved in writing substantive statutory provisions specifically applicable to foreign banks which are consistent with the rules applicable to U.S. banks.

If not the Bank Holding Company Act, what then?

Mr. Gardner. What I am trying to suggest here, perhaps I have done it obscurely or unclearly, is that we have a Foreign Bank Act which parallels that part of the Bank Holding Company Act that we want to apply to foreign banks.

You see, my criticism of the use of the Holding Company Act is that we would define branches as "banks" and foreign banks as bank holding companies. This of course is simply using a legal fiction for definition. Branches under our law are not necessarily—do not become a holding company because a bank, an entity bank or single entity bank has branches.

I am just suggesting that we spell out in the law the parallel controls that are available in the Bank Holding Company Act to reach the result that we intend here without doing it by defining a branch because it has a parent abroad as a holding company.

Senator McIntyre. As a followup to the line of questioning Senator Stevenson was pursuing, would you please explain, gentlemen, with some specificity the present system of reporting and reserves and explain where it is inadequate?

Is that question clear, Governor?

Mr. MITCHELL. I think it is clear.

There are two elements to reserves. In the first place, agencies and New York investment companies currently carry no reserves on their credit balances under State law. But branches and subsidiaries maintain, generally, the same reserves applicable to State nonmember banks.

The reserve requirements applicable to banks in New York, California, and Illinois are substantially similar to Federal requirements, that is, the level of reserves, on either demand or time deposits. In Illinois, there is a quirk in the law as branches of foreign banks are required to maintain the same reserves as State member banks, even though State banks in Illinois need not maintain any reserve requirements under Illinois law.

The principal differences between State and Federal Reserve reserve requirements are: (1) The treatment of Eurodollars, which are not reserved under State law and which are reserved in the case of Federal reserve requirements; and (2) the form in which those reserves are held. Under Federal Reserve regulations, vault cash counts as part of your reserve. If your reserve requirement turns out to be, say, 5 percent for a given bank and you have 3 percent in vault cash, vault cash counts. The rest, however, has to be an average balance held with the Federal Reserve Bank of your district—these balances are nonearning assets.

Therefore, banks choose nonmembership to avoid that sterile aspect. They still must clear checks, so they carry balances with correspondent banks. Those banks clear their checks and they get a fee for doing so. Correspondent or clearing accounts are analyzed and the services offered by the correspondent bank are priced, and the yield on the average balance in the account is computed. So those are earning assets in terms of services.

Senator MCINTYRE. Can you add anything to that, Mr. Secretary?

Mr. GARDNER. No, sir; but I wish my distinguished colleague had put on his economist hat for a minute and simply said that the expansion of money and credit through the banking system is one of the tools of monetary policy and that unless we can vary reserves for a significant group in the banking industry we can't really control the supply of money and credit effectively.

Senator MCINTYRE. Senator Stevenson.

Senator STEVENSON. One of the more controversial aspects of this issue is grandfather. What would the reaction abroad be if legislation didn't include grandfathering? Would it, to put it slightly differently, would it be better to have no foreign banking bill at all than one which did not contain grandfathering, in your opinion?

Mr. MITCHELL. Well, I guess I would be of the view that grandfathering is an essential feature of a bill of this kind in order to maintain a good faith posture toward people we do business with around the world every day, because the foreign banks that have come to this country have come under the rules that were in existence when they arrived in New York or in California or Massachusetts or Illinois. So they entered on a good faith basis.

And the congressional policy with respect to the bank holding company had been to grandfather preexisting arrangements. For example, we have three or four holding companies that were grand-

fathered and have offices, one has offices in 11 States and a couple of them have offices in 5 States, so that this is a practice that a foreigner could point to as being a way in which U.S. banks were domestically treated when the law was changed.

Now, how serious might the retaliation be? Well, I suppose it would depend upon the country and the degree to which the banks in that country were adversely affected by it, but I think the reaction would be substantial.

Senator STEVENSON. Do you have anything to add, Mr. Gardner?

Mr. GARDNER. My answer, Senator, would be that it would be better to have a foreign bank bill even if we didn't have grandfathering provisions in it. However, reason and justice dictates an appropriate divesture period, which in my view should be at least as long as 10 years or something, so that we don't invite immediate direct retaliation abroad.

Senator STEVENSON. Do you prefer grandfathering?

Mr. GARDNER. I have accepted grandfathering. I think it has certain dangers because there are in existence nonstandard subsidiaries of foreign banks. They are small and the Federal Reserve appropriately points out that they don't make much difference in our economy. Of course, they are also there and can be expanded so I have been a bit concerned about grandfathering, but I have accepted it.

I think in the long run we probably ought to attempt to eliminate some of these nonstandard operations. But I accept the grandfathering as a reasonable compromise at this time. I certainly think you should have a bill even if it didn't contain grandfathering.

Senator STEVENSON. Do you have a summary of the State laws on foreign banking?

Mr. MITCHELL. Yes, we do. We can supply that to you.

[The following was received for the record:]

LEGAL FRAMEWORK OF FOREIGN BANK OPERATIONS IN THE UNITED STATES

FEDERAL CONTROL OVER FOREIGN BANK ENTRY

There is at present no federal law which is specifically intended to govern the commercial banking operations of foreign banks in the United States. The federal statutes which do apply to foreign bank operations in the United States are statutes of general applicability that affect both domestic and foreign banks alike.

Under section 21(a)(2) of the Banking Act of 1933[1] (the so-called Glass-Steagall Act), any person or entity, either citizen or alien, engaging "in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor" in the United States must be chartered to engage in such business by the laws of the United States, or of any State, Territory or District, or receive affirmative permission from a chartering authority, either federal or State, and be subjected by such authority to examination and regulation, or at least be examined by the banking authorities of any State, Territory or District, and publish periodic reports of condition in the same manner as banking institutions incorporated in the jurisdiction. Accordingly, under this provision, a foreign bank that desires to enter the United States to do a business involving the receipt of "deposits . . . repayable upon the request of the depositor" must either find a State which by statute affirmatively provides for the opening of branches or agencies by foreign banks and their supervision and examination in accordance with section 21(a)(2), or must obtain a charter for a domestic banking subsidiary.

[1] 12 U.S.C. § 378(a)(2) (1970.

A foreign bank which intends to establish a representative office in the United States is not subject to section 21(a)(2) because no depository, or other banking business is actually transacted by such offices. Consequently, most States also do not regulate either the creation or the activities of these offices, California, however, is an exception, as it requires a representative to obtain a license from the superintendent of banking, who may grant or deny such license in his discretion and who may at any time revoke such license in his discretion.[2]

(a) The Bank Holding Company Act of 1956, as amended

Under the Bank Holding Company Act of 1956, as amended, foreign bank entry by means of the acquisition of "control" over a "bank" is regulated by the Board of Governors under section 3 of that Act. Under the definition of "bank" in the Act,[3] a foreign bank must obtain the Board's approval to acquire control over institutions organized under State or Federal law, or under the laws of the District of Columbia, any territory of the United States, Puerto Rico, Guam, American Samoa or the Virgin Islands, which accept deposits that the depositor has a legal right to withdraw on demand and which engage in the business of making commercial loans. "Control" of a bank is defined in the Act as (1) direct or indirect ownership, control, or power to vote 25 per cent or more of any class of voting securities of a bank, (2) controlling in any manner the election of a majority of the directors or trustees of a bank, or (3) exercising a controlling influence over the management or policies of a bank, which can only be determined by the Board after notice and opportunity for hearing. Since branches and agencies of foreign banks are not separately incorporated institutions "organized under" State law, they do not come within the definition of "bank" in the Bank Holding Company Act and a foreign bank establishing a branch or agency must therefore only obtain approval from State banking authorities. Even if a financial institution is organized under State or Federal law, a foreign bank need not obtain the Board's approval under the Act if the institution does not fall within the Act's definition of bank. A foreign bank can thus acquire a State-chartered industrial bank or limited purpose trust company without obtaining Board approval under the Act so long as it does not accept demand deposits and make commercial loans. In 1971, the Board also ruled that an Investment Company chartered under Article XII of the New York State Building Law was not a "bank" under the Act because it did not accept deposits that the depositor had a legal right to withdraw on demand within the meaning of the Act.[4] Consequently, foreign bank entry through Investment Companies in New York is only subject to State approval and regulation.

Even if a "bank" is to be acquired within the meaning of the Act, if no "company" is to acquire "control" over the "bank" then approval is also not required under the Act since a bank holding company has not been organized. In this regard, no one of foreign bank shareholders[5] of European American Bank and Trust Company ("EABTC"), New York, New York, the largest foreign bank-owned State chartered bank in the United States, has ever been required to apply to become a bank holding company because no one of the current foreign bank shareholders "controls" the bank within the meaning of the Act.

At the time the Congress was considering the 1970 Amendments to the Bank Holding Company Act, the House originally passed H.R. 6778 which amended the definition of "control" in section 2(a)(2)(A) of the Act, such that any "person" would have "control" over a bank or a company for purposes of the Act "if the person directly or indirectly or acting in concert with one or more other persons . . . has power to vote 25 per cent or more of any class of voting securities" of the bank or company. However, as finally enacted by the Con-

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[2] Cal. Fin. Code § 1780 (West Supp. 1975).

[3] 12 U.S.C. § 1841(c) (1970).

[4] Board letter of November 8, 1971, to San Francisco Reserve Bank concerning French American Banking Corporation, New York, New York.

[5] Midland Bank Ltd. of England, Deutsche Bank of Germany, and Societe Generale of France, and Societe Generale de Banque of Belgium each own, directly or indirectly, approximately 18.36 per cent of the shares of EABTC. Amsterdam-Rotterdam Bank of the Netherlands owns 15.5 per cent of EABTC and Creditanstalt Bankverein of Austria owns 2.27 per cent of EABTC. The remaining shares of EABTC (excluding directors' shares), are owned by European American Banking Corporation, New York, New York, a New York Investment Company affiliate of EABTC.

gress, the phrase "any person" was deleted and replaced by the phrase "any company", and the phrase "acting in concert with one or more other persons" was deleted and replaced by the phrase "acting through one or more other persons".[6] Had the "in concert" language been adopted by the Congress, it is possible that *each* of the foreign banks with significant shareholdings in EABTC could have been required to apply to become a bank holding company under the Act. Under the statutory language as adopted, however, a company can't be deemed to be a bank holding merely by showing that it acts in concert with other shareholders to control the bank; rather, it appears that it must be shown that the company acts "through" one or more other persons to control the bank.

Under the present definition of "company" in the Act, if a corporation, partnership, business trust, long-term trust, association, or similar organization controlled EABTC, that entity would have to apply to become a bank holding company. If the shareholders of EABTC had themselves formed a partnership, association or similar organization and that separate organization acted through the foreign bank shareholders to control EABTC, that entity would be a bank holding company. To date, the staff has been unable to obtain any factual evidence which would support a finding that such an independent entity exists, or that the foreign bank shareholders of EABTC are subject to the central controlling influence of any "company" as defined in the Act.

To summarize the applicability of the Bank Company Act to foreign bank entry in the United States, any foreign bank acquiring control of a State or national commercial bank, or commercial bank organized under the laws of the District of Columbia, Puerto Rico, Guam, American Samoa or the Virgin Islands must obtain the Board's approval to become a bank holding company under section 3 of the Act. A foreign bank establishing a branch or agency in the United States, or organizing an Investment Company or limited purpose trust company in New York need not obtain Board approval under the Act. A foreign bank's acquisition of a non-controlling interest in a U.S. commercial bank is also not subject to the Act. In addition, even if a U.S. bank is owned entirely by several foreign banks, none of the foreign banks must individually apply to become a bank holding company if no one of the foreign banks control the bank, and together they do not constitute a partnership, association, or similar organization under the Act.

CHOICE OF ORGANIZATIONAL FORM

In choosing whether to establish a branch or agency, or organize an Investment Company or State or national commercial bank, a foreign bank must first decide exactly what type of commercial banking business it wants to perform in the United States, where it wants to perform such type of business, and whether it wants to acquire interests in nonbanking businesses in the United States. Such a decision can only be made by carefully considering the legal restraints or prohibitions it will encounter in operating through each form of organization. Following is a general description of the legal structure surrounding each of the above forms of organization.

BRANCHES AND AGENCIES

Eleven States specifically permit a foreign bank to establish a banking office to conduct a banking business in that State—Alaska, California, Georgia, Hawaii, Illinois, Massachusetts, Missouri, New York, Oregon, Utah and Washington.[7] Of this group, only Illinois, New York and Massachusetts appear to give foreign banks the right to maintain a branch that can conduct the full service commercial banking business of a State-chartered subsidiary. The remaining States are either very specific with respect to the type of facility that can be maintained,[8] or impose the requirement that in order to receive deposits, the

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[6] The statutory phrase first appeared in H.R. 6778 when it was reported out by the Senate Banking Committee.

[7] Alaska permits a foreign person to engage in a banking business within that State, but apparently only through a State-chartered subsidiary.

[8] For example, in Georgia, a foreign bank may maintain an agency to engage in a general banking business, except that no such agency shall make loans, exercise fiduciary powers, or receive deposits, although credit balance accounts may be maintained. In Hawaii, branches and agencies of banks may not receive deposits or accept credit balances. Washington imposes restrictions on the amount and type of deposits that can be accepted from Washington residents. Missouri permits only a limited foreign banking business by an agency.

branch or agency obtain insurance from the Federal Deposit Insurance Corporation.[9] Since a branch or agency of a foreign bank does not come within the definition of State bank in the Federal Deposit Insurance Act,[10] this latter requirement effectively forecloses such branches or agencies from accepting deposits within the State. California, however, does permit branches or agencies to accept deposits from any foreign State or from any person which resides, is domiciled, and maintains its principal place of business in a foreign bank receives written approval from the superintendent.[11] Sixteen States specifically prohibit foreign banks from doing a banking business within their borders,[12] and, the laws of the remaining States have no legislation either specifically permitting or prohibiting entry.

In some States, such as New York, there is a statutory distinction between a branch or agency of a foreign bank, as the latter may not accept deposits or exercise fiduciary powers. In other States, such as Massachusetts, California or Illinois, there appears to be no legislative distinction between the powers of branches or agencies. Thus, one must discuss branches and agencies with specific reference to the laws of the individual States. Since three States contain virtually all of the foreign bank branches and agencies, the laws of these States will be discussed in detail.

NEW YORK—AGENCIES AND BRANCHES OF FOREIGN BANKS GENERAL REQUIREMENTS

The conditions and formalities necessary to establish an agency or branch of a foreign banking corporation in New York State are largely contained in Sections 200 and 201 of the New York Banking Law.[13] Section 200, among other requirements, provides that a foreign banking corporation seeking to establish an agency must file with the superintendent an irrovocable power of attorney appointing the superintendent as its attorney for the service of process in any action or proceeding in a cause of action arising out of a transaction with the agency, and a certificate naming the person to whom such process shall be forwarded.[14] This condition, although not applicable on its face to branches of foreign banking corporations, is nonetheless imposed by the Banking Board as a condition to the establishment of such branches.[15]

Section 201 of the Banking Law requires a foreign banking corporation seeking to open an agency or branch to file an application containing certain specified information. Among other things, this provision in effect requires that the assets of the applying foreign banking corporation exceed its liabilities by at least $1,000,000.[16] In effect, therefore, the applying corporation must have capitalization of at least $1,000,000 in order to establish a branch or agency. The application must be approved by the Banking Board; the foreign corporation will thereupon receive a license for its agency or branch, effective for one year, which, after ten consecutive years of good conduct, may be extended indefinitely.[17]

In addition, foreign banking corporations, whether establishing a branch or agency, must comply with Section 202–b(2) of the Banking Law, which requires any foreign banking corporation having an agency or branch in New York to hold assets in New York State in an amount not less than 108 per cent of its liabilities in New York, including acceptances, but excluding accrued expenses, and amounts due and other liabilities to other offices, agencies, branches, or wholly-owned subsidiaries of such corporation.

Branches

Branches of foreign banking corporations in New York may buy, sell, or col-

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[9] California, see also Washington Banking Law § 30.42.110.
[10] 12 U.S.C. § 1813(a) (1970).
[11] Cal. Fin. Code § 1756.2 (West Supp. 1975).
[12] Arizona, Connecticut, Florida, Idaho, Iowa, Maine, Maryland, Michigan, Minnesota, Montana, New Jersey, Ohio, Rhode Island, Texas, Virginia, and West Virginia.
[13] N.Y. Bank. Law, §§ 200, 201 (McKinney 1971). A complete list of the prerequisites of forming an agency or branch by a foreign banking corporation is contained at 3 N.Y. C.R.R. Supervisory Procedure CB 102 ("Application by a Foreign Banking Corporation For License to Open and Maintain a Branch or Agency.")
[14] Id. § 200(3); see also N.Y. Bank. Law § 34 (McKinney 1971).
[15] See 3 N.Y.C.R.R., Sup. Proc. CB 104 ¶ 104.3(a)(6).
[16] N.Y. Bank. Law § 201 (McKinney 1971).

lect bills of exchange,[18] issue letters of credit,[19] make loans,[20] receive money for transmission,[21] accept deposits,[22] purchase installment indebtedness,[23] make secured advances repayable on demand to an amount not less than $5,000,[24] engage in the safe deposit business,[25] exercise certain limited fiduciary powers,[26] and, if authorized by the Superintendent of Banks, operate a personal loan department.[27] The power to receive deposits and exercise fiduciary powers is, however, conditioned upon reciprocal treatment of New York banks and trust companies by the country under whose laws such foreign banking corporation is authorized.[28]

Since branches of foreign banks exercise full-service banking powers similar to those of a State-chartered New York bank, they are generally subject to the same regulations as State chartered banks.

Foreign banking corporations having New York branches are required to maintain such reserves against deposits of such branches as are required of domestic banks and trust companies,[29] and are subject to the same geographical restrictions with respect to additional in-State branches as domestic banks and trust companies.[30] The statutory rates that may be charged on loans by branches and New York commercial banks are also identical,[31] and branches of foreign banks are also subject to the interest rate limitations imposed on New York commercial banks by Banking Board General Regulation.[32] Such branches are subject to examination and the required filing of reports of condition; [33] furthermore, loans, purchases, discounts, extensions of credit, and acceptances by such branches within New York State are subject to the same limitations (as to amount in relation to capital stock, surplus fund, and undivided profits) as are applicable to banks and trust companies organized under the laws of New York. However, the so-called "lending limit" of each branch is determined with reference to the capital and surplus of the parent foreign corporation, and not just to the assets maintained by the branch in New York.[34]

Foreign banking corporations with branches in New York are also required to deposit specified types of high-grade obligations in an aggregate amount of not less than $100,000 with a New York banking institution of its own designation which has been approved by the superintendent.[35] The superintendent may require the total amount deposited to exceed the amount "required to conform to generally accepted banking practices in the State of New York as manifested by banks in the area in which the branch is, or is to be located." [36] The purpose of this provision is to protect depositors of the branches of such foreign corporation; and such securities immediately become the property of the superintendent upon his taking possession of the business and property in New York pursuant to a "lien, charge, right of set-off, credit or preference in connection with any claim of the depository against the foreign bank." [37]

A New York branch must conduct its activities as a separate entity and its books, assets and liabilities must be maintained separate and apart from the records, assets and liabilities of the head office or any other branches of the bank. Consequently a branch's depositors have no right to draw on their accounts at any other branch or main office of the bank and conversely, de-

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[18] Id., 3201.
[19] Id.
[20] Id.
[21] Id.
[22] Id.
[23] Id., § 202(2).
[24] Id., § 202(3).
[25] Id., § 202–i.
[26] Id., § 201–b.
[27] Id., § 202(4).
[28] Id., § 202–a.
[29] Id., §§ 107, 202–c; and see 3 N.Y.C.R.R. § 213.
[30] Id., §§ 105 and 202–e, as amended (McKinney Supp. 1974–75).
[31] Id., § 202.
[32] Id., § 14(h).
[33] Id., §§ 36(4), 204.
[34] Id., § 202–f. In this connection, the section also provides as follows: "Before opening a branch in this State, and annually thereafter so long as a branch is maintained in this state, a foreign banking corporation, licensed pursuant to article two of (the N.Y. Banking Law), shall certify to the superintendent the amount of its paid-in capital stock, its surplus fund and its undivided profits, each expressed in the currency of the country of its incorporation, the dollar equivalent of which amount, as determined by the superintendent, shall be deemed to be the amount of its capital stock, surplus fund and undivided profits."
[35] Id., § 202–b(1)(a).
[36] Id.
[37] 3 N.Y.C.R.R. § 51.1 ("Deposits by Licensed Foreign banks in New York"). The securities are held in safekeeping and may be released to the superintendent on his order.

positors at the main office or any other branch of the bank have no right to draw on their accounts at the New York branch.

The New York Banking Law adds further strength to the separate entity concept of the branch by providing in Section 606–4(a) that, in the event of liquidation, creditors of the New York branch have a prior claim against the New York branch assets, without prejudice to their right to share in other assets of the bank. An additional protection is provided by Section 202–b(2) of the Banking Law, which, as previously discussed, requires that each foreign banking corporation shall hold in the State assets of not less than 108 percent of the aggregate amount of liabilities payable at or through its branch in New York, but excluding accrued expenses and amounts due and other liabilities to other offices or branches of, and wholly-owned subsidiaries of such foreign banking corporation.

The separate entity concept is further reinforced by the imposition of reserve, usury, lending limit and deposit interest rate limitations described above, as well as through the examination of such branches as if they were separately incorporated subsidiaries.

Agencies

Agencies are authorized to buy, sell or collect bills of exchange, issue letters of credit, receive money for transmission abroad, make loans and maintain for the accounts of others credit balances, incidental to or arising out of, the exercise of the agency's lawful powers.[38] Unlike branches, however, agencies are specifically prohibited from receiving deposits[39] or exercising fiduciary powers.[40]

Agencies, having fewer banking powers, are also subject to less regulation, as they are not required to hold reserves or observe interest rate limitations, are not subject to any "lending limits", and have no geographic or locational limitations. They also do not have to make the "capital equivalency" deposit of branches; they are, however, subject to the 108 per cent domestic asset requirement. In addition, unlike the case of branches, the establishment of an agency is not conditioned upon reciprocal treatment of New York banks by foreign countries. As in the case of branches, agencies are treated as separate entities and are subject to examination,[41] and their parent foreign banking corporations are required to file such reports as may be prescribed by the Superintendent.[42]

CALIFORNIA—BRANCHES AND AGENCIES

In order to establish a banking office in California, whether it be a branch or agency, a foreign banking corporation must obtain a license from the superintendent, and must observe the limitations on its activities prescribed in § 1750 *et seq.* of the Banking Code.[43] It must first comply with certain organizational prerequisities, including allocation of a portion of its capital and surplus to the branch or agency equal to minimum capital requirements imposed on California banks at that location and must deposit half that amount or $100,000, whichever is greater, with the State Treasurer for the faithful performance of all obligations entered into in California.[44] This latter deposit is held for the sole benefit of the creditors of such corporation's California business.[45]

California imposes a strict separate entity concept on branches and agencies which is expressed in a governing statute, and which is implemented not only by the aforementioned security deposit but also by provisions requiring that assets be kept separate,[46] separate books and records be maintained,[47] preference be given to California creditors on California assets,[48] and, if deposits are received, California assets be maintained equivalent to 108 percent of liabilities,[49]

[38] N.Y. Bank. Law, §§ 201, 202–a.
[39] Id., § 202–a.
[40] Id.
[41] Id., § 36(4).
[42] Id., § 204.
[43] Cal. Fin. Code § 1750 (West 1968).
[44] Id., § 1751 as amended (West Supp. 1975).
[45] Id., § 1752.
[46] Id., § 1753.
[47] Id.
[48] Id.
[49] Id., § 1756.1(b).

reserves be maintained against such deposits as may be required of California bank and trust companies,[50] and lending limits be observed, based on the parent foreign banks' paid-up capital and surplus.[51]

Branches or agencies may transact in California the business of buying, selling, paying, or collecting bills of exchange, issuing letters of credit, receiving money for transmission by draft, check cable or otherwise, and of making loans.[52] A branch or agency may not accept deposits in California unless a U.S. bank could maintain a branch, agency, or wholly-owned subsidiary in their home country,[53] and unless FDIC insurance is obtained.[54] Since the latter requirement is legally impossible, there is no full-scale branch operating in California at this time. Branches and agencies, however, are given the authority to accept deposits from a foreign State and certain foreign persons, and if they do so, they become subject to most of the same provisions of California law as commercial banks, including reserves and loan limits, and maximum interest rates.[55]

ILLINOIS—BRANCHES AND AGENCIES

The Illinois "Foreign Banking Office Act"[56] allows a foreign bank to establish one full service commercial banking office, whether it be called a branch or agency, in the central business district of Chicago.[57] The establishment of such an office is conditioned, however, upon the foreign's bank host country permitting a State and national bank to establish a banking office or wholly-owned banking subsidiary in that country.[58]

The Illinois law parallels the New York law to a great degree, as foreign banking offices are given the same, but no greater, rights and privileges as a State bank, and except as otherwise provided, are subject to the same duties, restrictions, penalties or liabilities now or hereafter imposed on State banks under Illinois law.[59]

The separate entity concept is implemented throughout the statute as such offices are supervised and examined to the same extent as State banks,[60] must file the same reports as State banks,[61] must maintain the same reserves as State member banks,[62] must observe the same interest rate limitations as a State member bank,[63] must deposit securities in lieu of capital,[64] must maintain Illinois assets equal to 108 percent of liabilities,[65] must satisfy the same criteria for organization as a *de novo* State bank,[66] must maintain a registered agent for service of process,[67] and have a perpetual certificate, which remains in effect until surrendered or revoked.[68] In contrast to New York and California, Illinois does not impose a lending limit based upon the parent foreign bank's paid-in capital and surplus; rather, in computing the assets held to satisfy the 108 per cent of liabilities requirement, not more than 10 per cent of such assets may represent the total obligations of any one person to such foreign bank.[69] Also, unlike New York or California, no preference is given to Illinois creditors in the case of any distribution of assets pursuant to takeover by State banking authorities. If the Commissioner does, however, take possession of a branch, the securities deposited with the Commissioner in lieu of capital must be liquidated and distributed to depositors (excluding other offices or wholly-owned subsidiaries of the foreign bank) of the branch on a pro-rata basis, irrespective of any other liens or claims against the bank.[70]

[50] Id., § 1756.1(c).
[51] Id., § 1756.1(d).
[52] Id., § 1756, as amended (West Supp. 1975).
[53] Id.
[54] Id., § 1756.1.
[55] Id., § 1756.2 (West Supp. 1975).
[56] Smith Hurd Annotated ("S.H.A."), Ch. 16½, § 501–519 (1975–76 Supp.).
[57] Id., § 503.
[58] Id.
[59] Id.
[60] Id.
[61] Id.
[62] Id., § 515.
[63] Id., § 516.
[64] Id., § 511.
[65] Id., § 513.
[66] Id., § 504.
[67] Id., § 510.
[68] Id., § 506.
[69] Id., § 514.
[70] Id., § 512.

NEW YORK INVESTMENT COMPANIES

Foreign banking corporations have also chosen to do business in New York State through so-called "investment company" subsidiaries organized under Article 12 of the New York Banking Law, which have the following general lending powers:

"To borrow and lend money, with or without real or personal security; as principal or agent, to purchase, discount, acquire, invest in, sell and dispose of bills of exchange, drafts, notes, acceptances and other choses in action and obligations for the payment of money; and, as principal or agent, to purchase, acquire, invest in, service, sell and dispose of, and make loans upon the security of, bonds and mortgages on real property situated in this state or outside this state." [71]

Although investment companies cannot receive deposits in New York State, they are, like agencies, authorized to maintain for the account of others credit balances incidental to or arising out of the exercise of their lawful powers.[72] However, with the approval of the Banking Board, an investment company may be authorized to receive deposits outside New York State.[73] The Banking Board may also authorize such companies to act as financial agents and depositories for the United States government,[74] and to receive funds for transmission between the United States and foreign countries.[75]

Investment companies are also authorized to deal in securities [76] subject, however, to certain limitations. First, such companies cannot invest more than 10 percent of their capital and surplus in any one "moneyed corporation" and may invest a total of no more than 30 per cent of their capital and surplus in all such "moneyed corporations." [77] Second, investment companies cannot deal in their own securities.[78]

Finally, an investment company having paid-up stock of at least $2,000,000 [79] may "accept bills of exchange or drafts drawn upon it payable on demand or on time not exceeding one year from the date of acceptance," and may issue letters of credit and buy and sell coin, bullion, and exchange.[80]

Investment companies may conduct operations in New York free from many of the regulatory restraints applicable to branches or agencies, or State-chartered subsidiaries. For example, they are not subject to the "lending limits" or reserve requirements applicable to branches or State-chartered bank and trust company subsidiaries of foreign banks. Moreover, although an investment company must submit an annual report of condition to the superintendent [81] and may be examined by the superintendent,[82] it is not subject to regular *annual* examination by the superintendent unless (1) it is authorized to receive deposits outside New York State, (2) a bank, trust company or industrial bank, or any two or more of such organizations collectively, own 25 per cent or more of its stock, or (3) it is "affiliated with a corporate banking organization".[83] Since foreign banking corporations are not "banking organizations" as defined in the banking law,[84] a wholly-owned investment company subsidiary of a foreign banking corporation, not authorized to receive deposits outside New York, would appear to be exempt from the requirement of annual examination.

Any investment company which is exempt from annual examination by virtue of the foregoing provisions may also establish branches [85] and change the location of its principal office and branch offices [86] without the prior approval of the Banking Board, by giving written notice of the establishment of such branch

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[71] N.Y. Bank. Law § 508(1) (McKinney, 1971).
[72] Id., § 509(4).
[73] Id., § 508(3)(b). We are informed no such authorization has yet been granted.
[74] Id., § 508(3)(a). J. Henry Schroder Banking Corporation, French-American Banking Corporation and Discount Corporation of New York have been authorized by the Banking Board to so serve in connection with the sale of obligations of the United States.
[75] Id., § 508(3)(c).
[76] Id., § 508(5).
[77] Id.
[78] Id., § 509(3).
[79] Id., § 509(1).
[80] Id., § 508(2).
[81] Id., § 513.
[82] Id., § 36.
[83] Id., § 36(2).
[84] Id., § 2.
[85] Id., § 508(4).
[86] Id., § 511 (McKinney Supp. 174–75).

or such change in location to the superintendent. Moreover, even investment companies that are not exempt under the foregoing provisions may (with prior approval) establish branches in New York State without regard to the geographic restrictions applicable to State-chartered banks and trust companies, unless such restrictions are administratively imposed by the Banking Board.[87]

Foreign banking corporations may find investment company subsidiaries desirable for several additional reasons. First, Section 507 of the Banking Law requires each investment company doing business in New York to keep on deposit with the superintendent, at an approved depository, certain high-grade securities in an aggregate amount of only $1,000.[88] Second, only one of the directors of an investment company must be a citizen of the United States and a resident of New York.[89] Third, with the approval of the superintendent and subject to such regulations as may be issued by the Banking Board,[90] investment companies may operate foreign branches, which may exercise all the powers permitted such companies, and "such further powers as may be usual, in connection with the transaction of the business permitted by [Article 12] in the place where such foreign branch office shall transact business."[91]

STATE-CHARTERED SUBSIDIARIES

A foreign bank seeking to organize or acquire a State bank subsidiary must, like any other domestic or foreign company, obtain the Board's approval to become a bank holding company under § 3(a)(1) of the Bank Holding Company Act. If it is organizing a *de novo* bank, the foreign bank must, of course, first obtain a charter from State banking authorities.

In acting on an application by a foreign bank to acquire a U.S. bank, the Board must follow the same procedures and consider the same statutory factors that apply in the case of any other holding company acquisition of a U.S. bank. Thus, the appropriate State banking authority is given thirty days to comment on the application, and should such authority file a written disapproval within said period, the Board must then provide a hearing on the application and decide the application on the basis of the record made at such hearing.[92]

The Board may not approve any such acquisition that would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States, or whose effect in any section of the country may be to substantially lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint on trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.[93] The Board must also take into consideration the financial and managerial resources and future prospects of the foreign bank and U.S. bank concerned, and the convenience and needs of the community to be served.[94]

To date, the Board, in applying these standards, has not had reason to deny any application by a foreign bank to acquire a U.S. subsidiary bank.

If a foreign bank is to become a U.S. bank holding company, it must, of course, comply with all of the provisions of the Bank Holding Company Act. With respect to its U.S. banking operations, this means first, that its State subsidiary bank must become insured with the FDIC.[95] The State subsidiary as an insured bank then, of course, becomes subject to a panoply of federal as well as State laws and regulations e.g., assessments and examination by the FDIC, interest rate limitations, restrictions on loans to affiliates, the Bank

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[87] Id., §§ 29, 508(4).
[88] Id., § 507.
[89] Id., § 7001(2)(d).
[90] The Banking Board has not as yet promulgated regulations hereunder.
[91] N.Y. Bank. Law § 508(6) (McKinney 1971). The statute provides however, that no such branch may ". . . engage in the general business of producing, distributing, buying or selling goods, wares, or merchandise, nor, except with respect to securities issued by any foreign nation or any agency thereof engage or participate, directly or indirectly, in the business of underwriting, selling or distributing securities."
[92] 12 U.S.C. § 1842(b) (1970).
[93] 12 U.S.C. § 1842(c) (1970).
[94] Id.
[95] 12 U.S.C. § 1842(e) (1970).

Merger Act, and the FDIC's cease and desist authority under the Financial Institutions Act of 1966. Secondly, the foreign bank must thereafter obtain Board approval to (1) acquire, directly or indirectly, more than 5 percent of the shares of any other U.S. bank, (2) acquire, directly or indirectly, all or substantially all of the assets of another U.S. bank (other than through a merger involving its subsidiary bank), or (3) merge or consolidate with any other bank holding company.[96] Thirdly, the foreign bank will not be able to acquire directly or indirectly more than 5 per cent of the outstanding voting shares of, interest in, or all or substantially all of the assets of any additional bank outside of the State where it has organized or acquired its subsidiary bank unless the acquisition of such shares or assets is specifically authorized by the statute laws of the State in which such additional bank is to be located, by language to that effect and not merely by implication.[97] Thus, for example, a foreign bank with a subsidiary in New York, may thereafter only enter California or Illinois through a branch or agency form of organization.

Since the multi-State restrictions of the Bank Holding Company Act do not apply to the branch or agency operations of foreign banks, and since the FDIC requirement is now a *sine qua non* to engage in retail banking, which is generally the primary reason for organizing a subsidiary in lieu of a branch or agency, the Bank Holding Company Act does not currently have a significant impact on the U.S. banking operations of foreign banks. Of more importance to most foreign banks, especially those which have interests in securities companies in the U.S., is the fact that by becoming a bank holding company, a foreign bank also becomes subject to the nonbanking prohibitions of section 4 of the Bank Holding Company Act.[98] This generally means that such a foreign bank, as a U.S. bank holding company, cannot hold or acquire more than a direct or indirect 5 percent share interest in a U.S. company, unless the company in question can be qualified under a specific exception to the general nonbaking prohibitions of section 4.

A foreign bank holding company is thus generally limited to acquiring share interests in U.S. companies, the activities of which the Board has determined, under section 4(c)(8) of the Act,[99] to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Of primary importance to many foreign banks from Europe is the fact that the Board, in determining proper U.S. activities for bank holding companies under this section, has applied the policies of the Glass-Steagall Act and has not determined investments in securities companies to be permissible under this section.[1] Therefore, a foreign bank with a U.S. bank subsidiary may not have greater than a 5 percent share interest in a U.S. securities company.

Since the nonbanking prohibitions of section 4 of the Bank Holding Company Act extend to both the domestic and foreign shareholdings of bank holding companies, many foreign banks have thought that by becoming U.S. bank holding companies, the Board would exercise control over their foreign nonbanking activities and shareholdings. Congress, however, did not intend to impose this country's ideas of banking on other countries and thus anticipated this problem first, by enacting section 2(h) of the Bank Holding Company Act[2] which exempts from the prohibitions of section 4, shares of any company organized under the laws of a foreign country that does not do any business within the U.S., if such shares are held or acquired by a bank holding company that is principally engaged in the banking business outside the U.S., and secondly, by giving the Board the discretionary authority in section 4(c)(9) of the Act[3] to exempt the shareholdings of foreign bank holding companies from the prohibitions of section 4, if the Board, by regulation or order, determines that the exemption would not be substantially at variance with the purposes of the Bank Holding Company Act and would be in the public interest. While the statutory exemption for foreign shareholdings in section 2(h) is limited to foreign banking organizations that become bank holding companies, the broader regulatory exemption in section 4(c)(9) applies to the shareholdings of any foreign company which becomes a bank holding company.

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[96] 12 U.S.C. § 1842(a) (1970).
[97] 12 U.S.C. § 1842(d) (1970).
[98] 12 U.S.C. § 1843 (1970).
[99] 12 U.S.C. § 1843(c)(8) (1970).
[1] See generally 12 CFR 225.125 (1975). See also Banco Di Roma decision discussed *infra*.
[2] 12 U.S.C. § 1841(h) (1970).
[3] 12 U.S.C. § 1843(c)(9).

The Board has implemented its authority under section 4(c)(9) by adopting regulations designed to prevent the nonbanking prohibitions of section 4 of the Bank Holding Company Act from unnecessarily interfering with the essentially foreign activities and shareholdings of foreign banks.[4] Thus, a foreign bank holding compay, which is defined in the Board's regulations to mean a bank holding company organized under the laws of a foreign country, more than half of whose consolidated assets are located, or consolidated revenues derived, outside the United States[5] may: (1) engage in direct activities of any kind outside the U.S.; (2) engage in direct activities in the U.S. that are incidental to its activities outside the U.S.; (3) own or control voting shares of any company that is not engaged, directly or indirectly, in any activities in the U.S. except as shall be incidental to the international or foreign business of such company; (4) with the consent of the Board, own or control voting shares of any company principally engaged in the United States in financing or facilitating transactions in international or foreign commerce; (5) own or control voting shares of any company, organized under the laws of a foreign country, that is engaged, directly or indirectly, in any activities in the United States if (a) such company is not a subsidiary of such bank holding company, (b) more than half of such company's consolidated assets and revenues are located and derived outside the United States, and (c) such company does not engage, directly or indirectly, in the business of underwriting, selling or distributing securities in the United States; and (6) own or control voting shares of any company in a fiduciary capacity under circumstances which would entitle such shareholding to an exemption under section 4(c)(4) of the Act if the shares were held or acquired by the bank.[6]

A foreign bank holding company that is of the opinion that other activities or investments may, in particular circumstances, meet the conditions for an exemption under section 4(c)(9) of the Bank Holding Company Act may apply to the Board for such a determination.[7]

Since most of the regulatory exemptions are automatic, the Board has not had very many occasions to consider applications by foreign bank holding companies under section 4(c)(9). The two exemptions that have received the most Board consideration are § 225.4(g)(2)(iv) of Regulation Y, which requires that prior Board consent be obtained before a foreign bank holding company own or control voting shares of any company principally engaged in the U.S. in financing or facilitating transactions in international or foreign commerce, and § 225.4(g)(3), under which a foreign bank holding company may file for a specific exemption.

The Board imposed a prior consent requirement on these latter two exemptions because they generally do not involve a question of the extraterritorial impact of the Act on the foreign operations or investments of a foreign bank holding company, but rather generally involve the question of whether a foreign bank holding company should be permitted to acquire the shares of a domestic corporation which could not otherwise be acquired under section 4(c)(8) of the Act. The Board, in its decisions under these exemptions, has been particularly concerned that such investments be consistent with the purposes of the Bank Holding Company Act, and not give foreign banking institutions competitive advantages in the United States over domestic banking institutions. Thus, the Board has denied domestic investments by foreign bank holding companies under section 4(c)(9) in companies engaged in commercial,[8] securities,[9] and other nonbaking activities[10] which are not permissible for domestic bank holding companies under the Bank Holding Company Act, or which do not accord with the purposes of section 4(c)(9),[11] and/or which would give foreign bank holding companies competitive advantages over domestic bank

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[4] § 225.4(g) of the Board's Regulation Y, 12 CFR § 225.4(g) (1975).
[5] 12 CFR § 225.4(g)(1)(iii) (1975).
[6] 12 CFR § 225.4(g)(2) (1975.
[7] 12 CFR § 225.4(g)(3) (1975).
[8] See Board Order of February 7, 1972 (1972 Bulletin 312), denying Banque Nationale de Paris' investment in Indremat Equipment Corporation, and Board Order of January 9, 1974 (1974 Bulletin 139), denying Lloyds Bank Ltd.'s retention of its investments in Drake America Corporation, and Drake America Corporation (P.R.).
[9] See Board Order of September 28, 1972 (1972 Bulletin 940) denying Banco di Roma's proposed retention of its investment in Europartners Securities Corporation.
[10] See Board Order of December 6, 1973 (1974 Bulletin 58), denying The Royal Trust Company's application to permanently acquire Informatoin Systems Design Inc.
[11] See Board Order of May 30, 1975 (—— F.R. ——), denying Bank of Tokyo's application to acquire Tokyo Bancorp International (Houston) Inc.

holding companies. The Board has approved investments by foreign bank holding companies under section 4(c)(9) in companies engaged in international financing activities,[12] and in leasing and investment activities of a type permissible for a domestic bank holding company under section 4(c)(8).[13] The Board has also approved a foreign bank holding company's investment in a New York Investment Company under section 4(c)(9),[14] after first ruling that the company was not a "bank" under the Act.[15]

REPORTING REQUIREMENTS

As a bank holding company, a foreign bank must register with the Board[16] and file such reports as the Board may require under the Act.[17] The Board requires specific annual reports for foreign bank holding companies, which require, among other information, current financial reports for all of its U.S. banking operations,[18] a copy in English of its latest annual report (including consolidated balance sheets and income statements of the foreign bank),[19] copies of reports filed by the foreign bank or its subsidiaries with the Securities and Exchange Commission,[20] and certain other financial data for the foreign bank and its U.S. nonbanking subsidiaries.[21] It must in addition list (1) the name and address of any shareholder that directly or indirectly owns, controls, or holds with power to vote more than 5 per cent of the shares of the foreign bank,[22] (2) the directors, trustees, partners, or persons exercising similar functions, and principal officers of the foreign bank showing certain required information,[23] and (3) each U.S. company (bank or nonbank) other than subsidiaries, which the foreign bank directly or indirectly owns, controls, or holds with power to vote, 5 percent or more of the outstanding voting shares and the number and percentage of shares held.[24]

NATIONAL BANK SUBSIDIARIES

There is no provision in the National Bank Act which prohibits a foreign bank from acquiring a national bank subsidiary. However, it appears that only a limited number of foreign banks have chosen this route because of the statutory requirement that all directors of a national bank be citizens of the United States,[25] and perhaps, because of the requirement that all national banks be members of the Federal Reserve System.[26]

Any foreign bank seeking to organize a new national bank would, of course, have to obtain a charter from the Comptroller of the Currency, and also be approved as a bank holding company by the Board under § 3 of the Bank Holding Company Act. A foreign bank seeking to acquire control of an existing national bank would only have to obtain Board approval under the Bank Holding Company Act, although, under that Act, the Comptroller could recommend disapproval of the transaction, and require that a hearing be held on the application. The requirements of the Bank Holding Company Act and how they would affect a foreign bank's operations in the U.S. are discussed in the immediately preceding section.

There is currently no provision in the National Bank Act which would permit a foreign bank to establish a federally-chartered branch in the United States.

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[12] See Board Order of January 9, 1974 (1974 Bulletin 139), approving Lloyds Bank Ltd.'s retention of its investments in Balfour, Williamson, Inc., and Export Credit Corporation.

[13] See Board Order of February 7, 1972 (1972 Bulletin 312), approving Banque Nationale de Paris' investment in French American Capital Corporation and Lacafrance U.S. Corporation, and Board Order of January 9, 1974 (1974 Bulletin 139), approving Lloyds Bank Ltd.'s retention of its investment in Export Credit and Marketing Corporation.

[14] See Board Order of February 7, 1972 (1972 Bulletin 312), approving Banque Nationale de Paris' investment in French American Banking Corporation.

[15] See fn. 4, *supra*.

[16] 12 U.S.C. § 1844(a) 1970).

[17] 12 U.S.C. § 1844(c) (1970).

[18] Form F.R. Y-7 (January, 1972), Exhibit A, Items 1 and 2.

[19] *Id.*, Item 3.

[20] *Id.*, Item 4.

[21] *Id.*, Item 2.

[22] *Id.*, Exhibit B, Item 1.

[23] *Id.*, Item 2.

[24] *Id.*, Item 3.

[25] 12 U.S.C. § 72 (1970).

[26] 12 U.S.C. § 722 (1970).

EDGE ACT CORPORATIONS

Edge Act Corporations are chartered by the Board under section 25(a) of the Federal Reserve Act[27] to engage in international banking and financing activities, and other international or foreign financial operations at locations in the United States, or to engage in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries or in such dependencies or insular possessions. While five or more natural persons may, with the Board's approval, form such corporations, they are almost all owned by the larger U.S. banking organization in order to engage in international banking and financing activities at locations throughout the country, and to hold investments in foreign banking and financing corporations organized and located in foreign countries.

Since a majority of the shares of an Edge Act Corporation must at all times be owned and held by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States,[28] a foreign bank may not acquire a majority interest in an Edge Act Corporation. While a foreign bank could acquire a minority interest in an Edge Act Corporation, the requirement that all directors of an Edge Act Corporation be citizens of the United States frustrates that choice.[29]

U.S SECURITIES AFFILIATES OF FOREIGN BANKS

Unlike U.S. commercial banks, which must structure their operations and investments to comply with the investment banking prohibitions of the Glass-Steagall Act[30] and the nonbanking prohibitions of the Bank Holding Company Act, many foreign banks have the authority under their home country to charter to engage in securities transactions as brokers, dealers, underwriters, investment companies, and investment advisers. For example, the Federal Republic of Germany and Switzerland require brokerage to be done by banking institutions. In France and Italy brokerage is done by banks as a matter of business practice. In Belgium, Japan, and the United Kingdom, however, banking and brokerage functions are segregated.

LEGALLY PERMISSIBLE METHODS OF INVESTMENT

A foreign bank thus will often wish to organize or invest in a U.S. broker/dealer because its foreign customers with U.S. affiliates expect the foreign bank to provide the same services in the U.S. that are available in the home country or elsewhere in the world. A foreign bank which decides to make such an investment and also maintain a commercial banking facility or investment in the U.S. has several ways of accomplishing both of its objectives.

A foreign bank may establish a commercial branch, agency, or New York Investment Company subsidiary and at the same time acquire a controlling interest in a U.S. broker/dealer free of the prohibitions of the Bank Holding Company Act and the Glass-Steagall Act. The former does not apply because none of the three entities is a "bank" under the Act and the foreign bank thus does not become a bank holding company. The latter does not apply because none of the three entities is a member bank.

A foreign bank that does not want to go the route of establishing its own commercial banking facility may nevertheless wish to have a noncontrolling interest in a U.S. bank, and at the same time invest in a U.S. broker dealer which engages in extensive investment banking activities. If a foreign bank makes a non-controlling interest in a non-member State Bank, it is again free of both the Bank Holding Company Act and the Glass-Steagall Act, and may thus have a controlling interest in a U.S. broker/dealer. This situation arises because a foreign bank does not become a bank holding company if it does not acquire control of a U.S. bank, and the Glass-Steagall Act applies only to the shareholders of member banks.

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[27] 12 U.S.C. § 611 et seq. (1970).
[28] 12 U.S.C. § 619 (1970).
[29] 12 U.S.C. § 614 (1970).
[30] §§ 16, 20, 21, and 32 of the Act of June 16, 1933, ch. 89, 48 Stat. 162, 12 U.S.C.

A foreign bank desiring to have a non-controlling interest in a national or State member bank and a controlling interest in a U.S. broker/dealer must, however, structure its investments more carefully, since a member bank is subject to the Glass-Steagall Act. Under section 20 of the Glass-Steagall Act,[31] a member bank cannot be affiliated in any manner described in section 2(b) of the Act[32] with a company principally engaged in certain prescribed investment banking activities. The provisions of section 2(z) of the Glass-Steagall Act are designed to prevent a member bank and U.S./dealer from being subject to common control by the same group of persons. Thus, the majority shareholders of a member bank cannot directly or indirectly control a U.S. broker/dealer. A foreign bank thus cannot have a controlling interest in a U.S. broker/dealer and a non-controlling interest in a U.S. member bank if (1) other shareholders of the broker/dealer are shareholders of the same member bank, and (2) such shareholders together with the foreign bank, own or control a majority of the shares of the same member bank. In addition, a foreign bank cannot even have a minority interest in a U.S. broker/dealer and a minority interest in a member bank if (1) other shareholders of the broker/dealer are shareholders of the member bank, and (2) such shareholders, together with the foreign bank, control the U.S. broker/dealer and the member bank.

THE IMPACT OF THE BANK HOLDING COMPANY ACT

A foreign bank which seeks to organize a U.S. subsidiary bank, or acquire control of an existing U.S. bank must apply to become a bank holding company. Under § 4(a)(2) of the Bank Holding Company Act,[33] it must divest of all its nonbanking investments in the U.S. within two years of the date it becomes a bank holding company unless such investments qualify for an exemption under section 4 of the Act. The Board may extend the two-year divestiture period a year at a time, although no such extensions may exceed five years from the date a foreign bank becomes a bank holding company.[34]

In 1972, Banco di Roma, Rome, Italy, applied to become a bank holding company and at the same time sought the Board's permission to retain its one-third interest in EuroPartners Securities Corporation, a securities company located in New York which is a member of several regional exchanges. The Board has never authorized domestic bank holding companies to acquire more than 5 per cent of the shares of a U.S. broker/dealer because the Board has consistently applied the policies of the Glass-Steagall Act to bank holding companies.[35] As a foreign bank holding company, Banco di Roma sought a specific exemption under the discretionary provisions of section 4(c)(9) of the Act. The Board, however, denied Banco di Roma's request because it felt approval would give Banco diRoma a competitive advantage over other U.S. banking organizations. Thus, a foreign bank is currently prohibited from having a subsidiary U.S. bank and a U.S. broker/dealer affiliate, a prohibition which, of course, extends to all bank holding companies domestic or foreign.

THE IMPACT OF THE GLASS-STEAGALL ACT

The Glass-Steagall Act generally prohibits national and State member banks from directly engaging in or being affiliated with any company that principally engages in certain prescribed securities activities. Under section 16 of the Glass-Steagall Act, a national and State member bank[36] is generally proscribed from dealing in securities and stock for its own account, from underwriting any issue of securities or stock, or from purchasing for its own account any shares of stock or any corporation, although certain specific statutory exceptions have been made to these prohibitions. Under section 20 of the Act, a national or State member bank cannot be affiliated in any manner described in section 2(b) of the Act with a company "principally engaged" in certain investment banking activities, and under section 32 of the Act personnel interlocks between member banks and companies "primarily engaged" in certain investment banking activities are also proscribed.

A foreign bank thus could not acquire control of both a member bank and a U.S. broker/dealer because of the prohibitions of the Glass-Steagall Act.

[31] 12 U.S.C. § 377 (1970).
[32] 12 U.S.C. § 221a (1970).
[33] 12 U.S.C. § 1843(a)(2) (1970).
[34] 13 U.S.C. § 1842(6) (1970).
[35] See 12 CFR § 225.125 (1975).
[36] The provisions of section 16 of the Glass-Steagall Act are applied to State member banks under 12 U.S.C. § 335 (1970).

STAFF MEMORANDUM—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CHART DESCRIBING STATES PERMITTING OFFICES OF FOREIGN BANKS

State	Type of office permitted (branch or agency) and restrictions	Reciprocity for establishment	Examination	Deposit taking authority and restrictions
California	Branches and agencies, California Finance Code, sec. 1751 (West 1968).	No, reciprocity necessary, however, in order to accept deposits, sec. 1756.	Offices subject to examination to the same extent as State banks, sec. 1900.	(a) Office may accept deposits, however, to do so they must have FDIC insurance, sec 1756.1(a). (b) Reserves on deposits same as for other banks in State, sec. 1756.2(c). (c) If deposits received, offices must keep assets in State equaling at least 108 percent of the offices' aggregate liabilities, sec. 1756.1(b). (d) Office must have capital allocated to it as though it were a bank commencing business. The greater of one-half of that amount of $100,000 must be deposited with the State Treasurer, sec. 1751(g); must maintain such other assets on deposit as the Treasurer deems necessary, sec. 1756.1(a).
Georgia	(a) Agencies, 13 Ga. Code Ann. sec. 2401 (1972). (b) To establish agency, foreign bank must have $100 million assets in excess of liabilities, sec. 2406(4).	Yes, sec. 2404(5)	Agency subject to examination to the same extent, as State banks, sec. 2402.	(a) Agency may not accept deposits, make loans, or exercise fiduciary powers, sec. 2407 (5). (b) May maintain credit balances, sec. 2407(5). (c) Agency must keep assets in State equaling at least 108 percent of the agency's aggregate liabilities, sec. 2408.
Hawaii	Branches and agencies, 22 H.R.S. ch. 403, sec. 16 (1968).	No	Offices subject to examination to the same extent as State banks, sec. 16.	(a) Offices may not accept deposits or maintain credit balances, sec. 16. (b) Offices limited to making and collecting loans, buying and selling, paying and collecting bills of exchange, issuing letters of credit, receiving money for transmission and transmitting the same by draft, check, cable, or otherwise, sec. 16.
Illinois	(a) Branches and agencies, 5 H.A. ch. 16½, sec. 503 (1972). (b) Only 1 office per foreign bank, sec. 503. (c) Office must be located in "central business district of Chicago," sec. 502.04.	Yes, sec. 503	Offices subject to examination to the same extent as State banks, sec. 503.	(a) Office may accept deposits to the same extent as State banks, sec. 503. (b) Interest on deposits same as for State member bank, sec. 517. (c) Reserves on deposits same as for State member banks; kept with State or national bank designated by Banking Commissioner, sec. 515. (d) Interest bearing deposits of the greater of $100,000 or 5 percent of the total liabilities of office must be maintained with a State or national bank, sec. 511. (e) Office must keep assets in State equalling at least 108 percent of the office's aggregate liabilities, sec. 513.
Massachusetts	(a) Branches and agencies, M.G. L.A.c. 167, sec. 37 (1971). (b) No more than 2 offices permissible, sec. 44.	No, reciprocity necessary only to act as a fiduciary, sec. 45A.	Annual, sec. 38	May accept deposits, subject to same restrictions applicable to banks in the State, sec. 37A.
Missouri	(a) Agencies, V.A.Mo.S. sec. 362.435 (1968). (b) By implication, more than 1 agency is permissible, sec. 362.430.	No, reciprocity necessary only to act as a fiduciary, sec. 362.600.	Agencies must report to banking commissioner, sec. 362460.	Agencies may not accept deposits or credit balances. Banking activities restricted, sec. 362.435.

New York	(a) Branches and agencies, New York Bank Law, sec. 201(a)(1) (McKinney 1971). (b) Investment companies, sec. 508 (c) Foreign bank may operate either branches or agencies, not both, sec. 202–d. (d) Location of additional branches subject to geographical restrictions, sec. 202–e.	Reciprocity is only necessary in order for branch to accept deposits or exercise fiduciary powers, sec. 202–a.	Agencies and branches may be examined by superintendent of banks, sec. 36(4).	(a) Only branches may accept deposits, sec. 202–a. (b) Agencies may maintain credit balances, sec. 202-a. (c) Investment companies may maintain credit balances, sec. 508. (d) Reserves on deposits same as for other banks in State, sec. 202–c. (e) Interest rate limit set by State banking board, sec. 202(1). (f) Branches must maintain at other financial institutions in the State deposits of $100,000 or such amounts as the superintendent of banks deems necessary, sec. 202–b(1)(a). (g) Branches and agencies must keep assets in State equaling at least 108 percent of the office's aggregate liabilities, sec. 202–b(2).
Oregon	(a) Branches, Oreg. Rev. Stats., sec. 714.030 (1974). (b) Limitations as to location, sec. 714.050; with grandfather privileges, sec. 714.030.	No	Yes, sec. 714.090	(a) Branches may accept deposits. (b) Assets equal to deposit liabilities must be kept in the State. (c) Reserve requirements and interest rate limitations same as for other banks in the State, sec. 713.010.
Washington	(a) Branches and agencies, R.C.W.A. sec. 30.42.030 (1974). (b) 1 branch or 1 agency permitted, sec. 30.42.040. (c) Grandfathering privileges, secs. 30.04.300 and 30.42.340.	Yes, sec. 30.42.090	Examined annually by statute, and at discretion of banking supervisor, sec. 30.42.-140.	(a) Branches may accept deposits from and make commercial loans to aliens not residing in the United States, corporations owned by individuals who are neither citizens nor residents of the United States, and corporations organized under the laws of another State which do not have a permit to do business in the State. Deposits may be accepted from others up to 20 percent of aggregate deposits, sec. 30.42.110. (b) In order to accept deposits bank must (1) either obtain FDIC insurance or arrange with State bank supervisor to maintain additional capital in the State in an amount not less than 10 percent of deposit liabilities and (2) hold assets in the State equal to 108 percent of the aggregate liabilities of the office, sec. 30.42.120. (c) Reserves and interest rate requirements similar to those applicable to other banks in the State, sec. 30.42.110. (d) Office must maintain $200,000 of paid-in capital on deposit with a bank located in the State. Such account is held for benefit of office's U.S. creditors, sec. 30.42.070.

Senator STEVENSON. The Federal Deposit Insurance Corporation takes the view that the FDIC coverage shouldn't be made mandatory because, as the Chairman says, the risks are substantial.

Why, Governor, you would nonetheless recommend mandatory FDIC coverage?

Mr. MITCHELL. Let me say, Senator, that the Board has been asked by the House of Representatives to prepare a comment on Mr. Wille's comment on insurance. I haven't seen that comment and I don't believe it is prepared yet. But the way I would answer the question would be as follows.

Today, foreign banking institutions own approximately $56 billion in United States assets. Of this $56 billion, $26 billion is in agencies, and about $3 billion in investment companies. So let's say you have about $30 billion out of the $56 billion in investment companies and agencies. These do nothing but a wholesale business. If they had insurance there would never be any significant claims against that insurance, even if they failed, because most of their accounts are in very large amounts with very few customers.

So, in those cases, the virtue of insurance is to provide competitive equality. It's the insurance assessment that counts. It provides competitive equality between the U.S. bank that has to pay insurance assessments on its liabilities and which is competing with these agencies. Even if 80 percent of a U.S. bank's deposits are not insured, it still has to pay a premium on the entire deposit complex.

If you look at the total assets held by agencies and investment companies and estimate earnings of about $250 million on those assets, then the assessment on that $250 million of earnings would amount to about $2.5 million. That is the kind of number you're talking about. It's not a very big number against the estimated earnings. Maybe it is competitively insignificant, but that is the only argument I know of for imposing an insurance requirement on agencies and New York investment companies.

Now, when we come to subsidiaries, of which they make up $10 billion of the total, these are presently insured. So that leaves us with branches.

The argument on branches goes this way. In the world today, the preferred status of a multinational bank is a branch. U.S. banks, for example, have 750 branches abroad. They have only about 50 banking subsidiaries. The advantage of the branch is that it is a part of the parent bank. The parent bank has to stand behind that branch without any equivocation. It is a part of that bank. The branch can't fail unless the parent fails. So most foreign authorities would much prefer that it be a branch rather than a subsidiary.

There is an issue involved here, that is, whether a bank should stand behind its wholly owned subsidiary. My belief is that most banks, and the record as far as I can see is without exception, have stood behind their subsidiaries, so long as the bank itself survived.

So maybe this is an artificial distinction between a branch and a subsidiary. In any event, being able to insure the branches is being able to offer an incentive for generating retail deposits.

Most U.S. banks feel that it is impossible to generate retail deposits without insurance. I see no great problem in insuring deposits

in branches; I don't see any greater problem than I do in insuring them in a wholly owned subsidiary.

There have been some legal contrivances introduced into this problem. In New York, I think they require 108 percent of branch deposit liabilities to be in the form of U.S.-denominated assets or U.S.-located assets. There are also sequestered amounts, a security deposit of some amount, that is maintained by a branch in lieu of capital.

But really, the greatest insurance against liability problems with branches and agencies is in admittance standards. A foreign bank should not be admitted to the United States unless it is very well established, has the backing of its central bank, and has a long record of performance.

So I think that the insurance issue perhaps has absorbed more attention than it ought to, on the basis of this kind of an analysis. I see no objection to branches being insured.

If you are not going to insure agencies then that may give them a little competitive edge. It is not, however, going to affect the public.

Senator STEVENSON. Thank you.

Senator McINTYRE. A vote is now in progress. Senator Stevenson, are you going to return after the vote?

Senator STEVENSON. I can't, Mr. Chairman.

Senator McINTYRE. All right. I will. I am going to go with questions until they give the halfway mark. Then I will return and we will try to get a few more questions in.

But we will have to quit at 11:45 when the next vote comes, or maybe it will be before then. I want to announce that Congressman Rees has agreed to come tomorrow at 1:30.

Mr. Secretary, apart from consideration of monetary policy, what other public policy considerations require Federal legislation at this time?

Two obvious questions come to mind. One, the Federal Reserve is ostensibly pursuing a policy of national treatment or mutual nondiscrimination.

If that is so, how can the Fed justify mandatory Fed membership? Mandatory Fed membership is not required of State-chartered banks in this country, and I, for one, simply do not understand how we could impose such a requirement on foreign banks without it being out and out discriminatory.

There may be many good reasons why foreign banks would want to be inescapable—requiring them to do so is imposing on them a burden which we simply do not impose on our own banks.

Would you please comment? Is it not possible to give the Fed additional authority over reserves short of mandatory Fed membership sufficient to meet the concern that the Fed has over the impact of foreign banking activity on monetary policy?

That is a long question. See what you can do with it.

Mr. GARDNER. It is a very good question, Mr. Chairman.

No. 1, it is monetary and credit policy and regulation that regulates oversight, that membership in the Fed would bring.

It is also possible in my judgment to do this without requiring, if we do set specified reserves for nonmember banks, which we do

not do now, it is possible to do this for foreign banks and it would be very close to obtaining the same result.

So, I think the question is very perceptive and I think you could devise a foreign bank reserve requirement system that would bring in the advantages, direct advantages of Fed membership if it were made optional. Membership in the Fed also contains a number of other advantages: an authority to use the discount window, an authority to clear checks and what have you. Those are optional features that many of our domestic banks do not avail themselves of. In effect you would be doing a major job if you would agree in the bill to specify certain reserves for banks commensurate with the reserves required of member banks. I think it could be worked out that way.

There is one point on reciprocity I would like to make. Reciprocity abroad should be viewed in the context of what our 750 banks do abroad. What they do is principally deal with U.S. dollars. They don't deal as much in local currencies as they do in U.S. dollars.

Now, we don't really care in this country for monetary policy or credit policy reasons what the foreign banks do in yen or lira or pounds. But when they come to our country they typically deal in our currency. Our currency is very important to our own monetary and credit policies. So I want to suggest that reciprocity as it appears abroad may be a little something different from what it really is because in most countries abroad, the foreign governments are perfectly willing to let our banks deal in dollars, which is unique. There is no other banking system that has as its national currency, as I have said before, the world's trading currency. You will find more restrictions on U.S. banks abroad in local currency transactions than you will in dollars.

Senator McINTYRE. I am going to leave you now. We will recess briefly. I will be back as soon as I can. I will ask you to comment briefly on that and we will proceed to a few more questions.

[Recess.]

Senator McINTYRE. Subcommittee back to order.

Gentlemen, assuming the Congress decides it does need to establish a better Federal handle on foreign banking in the United States, why wouldn't the following adequately meet public objectives?

One: Extend the dual banking system to foreign banks by granting them a Federal licensing or chartering option under the supervision of the agency which regulates national banks.

Present restrictions of nationality of directors could be waived. As with national banks, this Federal option might carry with it mandatory Federal membership. Similarly, as with national banks, geographic location would be left to the Federal regulator.

Two: Leave the States free to charter foreign banking operations as they presently do with Fed membership purely voluntary.

Three: Give the Fed, perhaps, a more direct handle, if appropriate, over foreign bank reserves.

Four: If need be, superimpose a Federal registration and reporting requirement over foreign banks to permit the Federal Government to better monitor their activities; then, to the extent such

registration or reporting requirements indicate problems arising, legislative relief could then be sought, as appropriate.

Five: Make FDIC insurance available to any foreign bank office which accepts domestic deposits with appropriate safeguards to protect the insurance fund.

Six: Forget about grandfathering securities affiliates of foreign banks. Perhaps red flag them not to expand their operations pending our resolution of the Glass-Steagall issue with the expectation that foreign securities affiliates might be able to expand or might have to contract their operations, depending upon what is permissible to U.S. banks.

Seven: Forget about grandfathering in terms of multi-State operations, recognize the fact that at the present time at least U.S. banks are not at any real competitive disadvantage vis-a-vis foreign banks by virtue of multi-State operations, particularly when comparing apples to apples, and, therefore, let the States continue to invite foreign banks—if they want to—regardless of whether the foreign banks may be doing business elsewhere.

There is precedent for this already, is there not, in terms of multi-State reciprocity under the Bank Holding Company Act.

I am going to ask you to comment briefly on that, but first because I am not going to be here to hear your comments, Governor Mitchell, since August 31, 1961, when you first assumed the seat on the Federal Reserve Board, you have earned respect in both this country and abroad for your work in a large number of important areas. You led the way in forming the discount window. You led the way in improving oversight of District Federal Reserve banks. You are leading the way in international banking regulation. You are also one of the leaders in the evolution of payment systems. This is evidenced by the Board's request that you be its prepresentative on the Electronic Funds Transfer Commission, after you retire from the Board.

We will all miss you on the Board. We all thank you for your more than 14 years of service and we are glad we will continue to benefit from your wisdom and experience through your service on the Commission.

With that I wish you the best of luck.

I think it would be appropriate, if you answer my question for the record.

We do have many questions we never got to that we will be sending over to you for reply.

I want to thank you both.

We will recess until 1:30 tomorrow.

[Whereupon, at 11:45 a.m. the hearing was adjourned, to reconvene at 1:30 p.m., on Thursday, January 29, 1976.]

[The complete presentations of Mr. Mitchell and Mr. Gardner, a copy of S. 958, a statement from Frank Wille, chairman, Federal Deposit Insurance Corporation, a letter from the Comptroller of the Currency, and a statement from the New York Stock Exchange follow:]

Statement by

George W. Mitchell

Vice Chairman, Board of Governors of the Federal Reserve System

I am pleased to appear before this Subcommittee, on behalf of the Board of Governors of the Federal Reserve System, to discuss the Board's reasons for recommending the enactment of legislation providing for the federal regulation and supervision of foreign bank operations in the United States.

Banking has increasingly become a multinational business in recent years in keeping with the growth in international trade and investment. (United States exports and imports combined are estimated to have exceeded 13.6 per cent of U.S. GNP in 1975 compared to approximately 8.4 per cent of U.S. GNP in 1971.) That development has been reflected in the expanded operations of U.S. banks abroad. Another aspect of this development has been the growing number of foreign banks establishing offices in this country to conduct both international and domestic banking activities. In February 1973, the Board established a System Steering Committee on International Banking Regulation composed of some members of the Board and some Presidents of the Federal Reserve Banks: part of that Committee's assignment was to review the regulatory policy issues associated with the influx and rapidly expanding activities of foreign banks in the United States. As a result of that review, the Board has concluded that the scale and nature of foreign bank operations in this country have become significant in terms of competition within the banking industry and of the functioning of money and credit markets and that, therefore, the time has come for the establishment of a national policy on foreign

banks operating in the United States and for the creation of a system of Federal regulation, supervision and examination of those operations.

To accomplish these objectives, the Board has submitted to the Congress legislative proposals for regulating foreign bank operations in the United States under the title of the "Foreign Bank Act of 1975". These legislative proposals were introduced in the Senate at the Board's request as S. 958--the subject of today's hearings. I would like to discuss the legislation embodied in S. 958 by first focussing in more detail on the reasons that have led the Board to conclude that such legislation is necessary at this time and by next describing briefly the major points of the Board's legislation. I will conclude my statement by setting forth additional Board recommendations on other regulatory issues not covered in S. 958 that the Board believes the Congress should consider in enacting legislation on foreign bank operations in this country.

<u>Reasons for Federal Regulation of Foreign Bank Operations</u>

There are three basic reasons that have led to the Board to conclude that it is appropriate at this time to move towards a system of federal regulation of foreign bank operations in the United States. First, and most tangible, is the rapid rate of growth that foreign bank operations in this country have undergone over recent years and their increasing importance to the functioning of domestic money and credit markets as well as to international flows of funds. Second, the present patchwork system of State and Federal regulation has resulted in illogical differences in the regulatory treatment of domestic and foreign banks.

While difficult to quantify, certain competitive advantages and disadvantages for foreign banks vis-a-vis domestic banks have occurred as a result of these differences. And finally, international banking operations are best conducted in a reasonably certain regulatory environment that fosters long-range planning and development. Federal legislation standardizing the national treatment of foreign banks in the United States not only would make for a stable regulatory environment in this country but since U.S. banks are leaders in international banking around the world it would also facilitate cooperation between national banking authorities, contribute to an emerging pattern by which foreign banking authorities could be guided in the treatment of banking interests originating outside their countries, and promote the development of international standards of banking soundness and competition.

Growth of Foreign Bank Operations in the United States

I will confine my comments this morning to summarizing what I believe to be the most important features of the recent growth of foreign bank operations in this country. In this regard, I am submitting for the record an Appendix prepared by the Board's staff that provides detailed statistical information on the size and growth of the U.S. activities of foreign banks.

As of September 1975, there were 181 U.S. banking institutions--defined to include agencies, branches, subsidiary banks, and New York Investment Companies--owned by foreign banks compared to 104

in November 1972, and their total assets have more than doubled from $24 billion in November 1972 to $56 billion in September 1975. If clearing transactions and transactions with other offices of their parent banks are eliminated, their "standard" banking assets--defined as loans, money market assets, securities, and miscellaneous assets--increased from $18 billion in November 1972 to $41 billion in September 1975.

The data on the overall growth of these institutions, while impressive, does not adequately portray the increasing importance of their impact on specific U.S. banking activities. For example, in September 1975 the U.S. offices of foreign banking organizations held $23 billion in total commercial and industrial loans, an amount equivalent to about one-fifth of such loans held by large banks which report weekly to the Federal Reserve. As recently as November 1972 their share in this important U.S. credit market was only one-eighth.

A second important activity of the U.S. offices of foreign banks is their money market transactions. In September 1975 U.S. offices of foreign banks had money market assets of over $12 billion, over one-half of which represented loans to and deposits with U.S. banks. Included in this total are loans and deposits of $3.1 billion placed with U.S. banks by the U.S. offices of banks from Continental Europe. The U.S. interbank market serves these banking institutions as a convenient outlet for managing the dollar balances of their parent organizations.

U.S. offices of foreign banks also had substantial money market liabilities totalling $11.7 billion as of September 1975. Of this total, $6.6 billion, or over one-half, represents interbank borrowings

by U.S. offices of Japanese banks, which use the U.S. interbank market as an important source of funds to finance their U.S. operations. The U.S. offices of banks from countries other than Japan do not rely on U.S. banks as a continuing net source of funds, although they utilize borrowings from U.S. banks as a source of liquidity when needed.

The important point to note from this brief discussion of the extensive transactions of the U.S. offices of foreign banks in U.S. money markets, is that these transactions closely link the U.S. activities of foreign banks with domestic U.S. money and credit markets.

In addition to their U.S. lending and money market activities, foreign banking offices engage in substantial international transactions with offices of their parent banking institutions as well as with unrelated foreign institutions. For example, as of September 1975 their gross claims on foreigners were $16 billion and their gross liabilities to foreigners were $25 billion. Included in these figures were net advances of $8 billion from their related institutions outside the United States, which advances are, in effect, used to finance their U.S. banking activities.

Thus, it should be clear from this summary data that the size and growth of these operations, their impact on important credit and financial markets in the United States, and their influence on the international payments position of the United States are matters of national import. Furthermore, the size and character of these operations require that they be supervised and regulated in a manner consistent with the supervision and regulation of domestic banks.

Current Regulation of Foreign Banks

Let me turn now to the current regulatory environment structuring foreign bank operations in the United States, and how this has led to certain differences in the regulatory treatment of domestic and foreign banks. I think the central point to be made is that foreign banks are now almost exclusively subject to State regulation, with little or no federal control.

If a foreign bank conducts its commercial banking activities in the United States exclusively through branch and agency forms of organization, it is currently not subject to any federal regulation, supervision, or examination. Since, as detailed in the Appendix, foreign banks conduct the majority of their operations through these forms of organization, the present system unaccountably exempts from federal oversight those operations that have the greatest potential for affecting our nation's economy and its major financial markets.

The principal regulatory advantages for a foreign bank in operating through branch and agency forms of organization are the following:

(1) branches and agencies are not legally subject to any of the reserve requirements or other regulations effecting monetary policy that are placed on the operations of their primary competitors--large national and State member banks in our major financial markets;

(2) branches and agencies are not subject to any federal restrictions on multi-State banking and thus can be established in any State that permits entry, even if a foreign bank has a State or federally-chartered subsidiary bank in another State (44 foreign banks have commercial banking operations in more than one State, Table 17 of Appendix);

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(3) a foreign bank maintaining only branches and agencies is not subject to the prohibitions of the Glass-Steagall Act, and thus can maintain those banking operations and at the same time have an interest in a securities firm in the U.S. (20 foreign banks with commercial banking operations in the U.S. have interests in U.S. broker-dealers, Table 18 in Appendix);

(4) a foreign bank maintaining only branches and agencies is not subject to the Bank Holding Company Act of 1956, as amended, and thus can engage directly or indirectly in the United States in any type of nonbanking activities and can invest in any United States commercial firm, so long as it has the power to do so under the laws of its home country; and

(5) branches and agencies are not subject to any federal bank examination, regulation, or supervision of the type carried out by the Comptroller of the Currency, the Board, or the FDIC.

The current regulatory framework has, however, also imposed certain artificial or outmoded restraints on foreign bank entry into the United States. For example, foreign banks cannot organize Edge Corporation subsidiaries that enable large U.S. banks to conduct international banking and financing operations in several cities that serve as centers of international trade financing. This prohibition, which was originally enacted in 1919 amidst fears of foreign domination of U.S. trade financing, no longer serves the national interest as our banks have since that time developed into strong and efficient competitors in international and foreign banking. Thus, that prohibition today can only function to preclude additional competition in some banking markets.

The provision in the National Bank Act that requires all directors of national banks to be citizens has been a factor influencing

many foreign banks to organize State subsidiaries. The lack of any provision in federal law for the establishment of federal branches is in sharp contrast to the situation in most foreign countries, where foreign banks establish branches approved by the national government. (As of September 1975, there were 751 branches of our banks abroad.) United States regulatory policy should encourage foreign banks to opt for national rather than State subsidiaries and branches, since those options would avoid problems of reciprocity between individual States and foreign governments and would afford greater federal control over the United States operations of foreign banks.

Finally, the lack of availability of FDIC insurance for deposits and credit balance accounts at branches and agencies has proven a disadvantage in competing in retail banking markets, but may give a cost advantage to foreign banks since U.S. banks must meet FDIC assessments on similar liabilities.

The current pattern of State regulation may also, in some cases, lead to anticompetitive and other results not in the national interest. For example, a foreign bank may not be able to enter a U.S. banking market because of State law restrictions. This situation could in some cases prevent a domestic bank from that State from entering a foreign bank's home country if the home country imposes a reciprocity requirement. The net effect of such a situation is a reduction in U.S. banking competition and a potential impediment to the foreign commerce of the U.S. Such situations might also involve important foreign policy considerations between the United States and the home country. Clearly,

a national policy and national regulatory system are needed so questions of reciprocity, as well as other matters of national interest, can be judged on a national, not local, level.

The United States is virtually the only country that does not have central bank control over the activities of foreign banks within its borders. This situation creates a gap in the Federal Reserve's control over domestic monetary conditions that will inevitably widen and increase in importance as foreign banks' activities continue to grow.

Major Points of Board's Proposal

I would now like to highlight briefly the major points of the Board's proposed legislation.

In the Board's judgment, two basic policy goals are embodied in the legislation proposed in S. 958. The first goal is the adoption by the federal government of the principle of national treatment, or nondiscrimination, toward the operations of foreign banks in this country. Second is the goal of establishing a comprehensive system of federal supervision, regulation, and examination of foreign bank operations in the United States in order to implement the principle of national treatment and to provide a framework for regulating the United States activities of foreign banks in view of their impact on the nation's money and credit markets.

The legislation embodied in S. 958 seeks to implement the policy of national treatment by amending U.S. banking laws to provide foreign banks with the same opportunities to conduct activities in this

country as are available to domestic banking institutions and by subjecting them to the same rules and regulations. Thus, the citizenship requirements for directors of national banks are relaxed in order to give foreign banks a real choice in deciding whether to establish a national or State subsidiary (Section 12); foreign banks are given the opportunity to establish federal as well as State branches (Section 18); the Edge Act is amended to permit foreign banks, with Board approval, to acquire Edge Corporation subsidiaries (Section 10); and it is recommended that the FDIC Act be amended in order to permit branches and agencies to obtain insurance on their deposit and credit balance accounts in the United States (Section 17).

The legislation proposed in S. 958 also closes federal regulatory gaps by amending the definition of "bank" in the Bank Holding Company Act to include branches and agencies of foreign banks (Section 2(4)), and by making other amendments to that Act designed to ensure that branches and agencies of foreign banks are treated the same as any U.S. banking organization with similar commercial banking powers (Sections 2-4). As a result, all branches and agencies would have to become insured banks; additional branches and agencies could only be established with Board approval and subject to Board analysis of financial, managerial, competitive, and convenience and needs considerations; branches and agencies could not be established outside of a foreign bank's State of principal banking operations unless a State bank headquartered

in its State of principal operations could also establish such offices; the parent foreign bank would in its U.S. activities be subject to all of the nonbanking prohibitions of the Bank Holding Company Act; and, lastly, the parent foreign bank and its nonbanking subsidiaries would in their U.S. activities be subject to the Board's cease-and-desist authority for unsafe and unsound practices.

Any branch, agency, or incorporated subsidiary bank of a foreign bank with worldwide bank assets in excess of $500 million would also be required by Section 3(3) of S. 958 to become a member of the Federal Reserve System and would thus become subject to the same kind of federal monetary and federal bank examination, regulatory and supervisory controls that apply to other member banks. In addition, as member banks, such branches, agencies and subsidiaries would become subject to the prohibitions of the Glass-Steagall Act and, as insured banks, would become subject to the provisions of the Bank Merger Act, Financial Institutions Supervisory Act of 1966, as amended, and other provisions of the FDIC Act.

S. 958 creates a comprehensive system of federal regulation of foreign bank operations not only through various amendments to United States banking laws but also through the establishment of a federal licensing procedure on future entry (Section 25). This procedure would give the federal government the opportunity to consider national interest and foreign policy factors in foreign bank entry, as well as the banking factors that will be considered by the bank regulatory agencies. This

federal role in entry will serve to facilitate greater cooperation among international bank regulatory authorities, and will strengthen the ability of the national government to obtain national treatment for U.S. banking institutions abroad.

In addition, I would like to emphasize that the legislation embodied in S. 958 does not undertake to supplant State regulation or remove options for State chartering or licensing. Rather, it seeks to superimpose federal controls on foreign bank operations in those areas where Congress has already subjected domestic banks to national regulation, such as the Bank Holding Company Act, or where foreign bank activities involve matters of national interest that are clearly the responsibility of the federal government, such as the effect of their operations on national money and credit markets.

Grandfathering of Existing Operations

An important policy issue that must be considered in subjecting foreign banks to the federal multi-State banking and nonbanking restrictions currently imposed on domestic banking organizations is the extent to which the Congress should afford foreign banks grandfather privileges for existing operations that do not currently conform to those domestic standards.

In Sections 3 and 4 of S. 958, the Board has recommended permanent grandfathering for all nonconforming banking and nonbanking operations (including securities operations) established by foreign banks on or before the original date of introduction of the Board's

proposal in Congress--December 3, 1974. Nonconforming multi-State banking operations established after that date but before enactment would have to be phased out in two years; nonbanking operations commenced in that interval would have to be phased out over ten years.

The Board strongly believes that permanent grandfathering of long-standing foreign bank operations in this country is needed in order to minimize any possible retaliation against U.S. banks abroad. This opinion is based primarily on Board members' discussions with foreign central and commercial banks and U.S. banks with significant operations overseas. Since the overseas operations of United States banks are about three times as large in terms of assets as those of foreign banks in the United States (as of September 1975, 126 U.S. banks operated 751 foreign branches in more than 90 foreign countries with total assets of about $135 billion), it is obvious that our banking system and its U.S. banking customers would be a net loser in any possible retaliatory efforts.

Aside from such considerations, however, the Board also strongly believes that a failure to permanently grandfather existing operations would be unduly harsh in light of the grandfather privileges previously extended U.S. bank holding companies. Several bank holding companies with multi-State banking subsidiaries were given permanent grandfather rights in 1956 and again in 1966 when the test for determining a bank holding company's State of principal banking operations was clarified.

In 1970, nonbanking activities of one-bank holding companies were permanently grandfathered so long as they were commenced on or before June 30, 1968 and were engaged in continuously since that date. Given these precedents, foreign banks should be afforded similarly liberal grandfather privileges. It must be remembered on this issue that foreign banks have established their operations in complete conformance with existing laws; branch and agency forms of organization are not devices for avoiding certain federal banking laws but rather are well-accepted forms of banking operations around the world.

Furthermore, it would appear that the extent of permanently grandfathered nonbanking activities would be relatively small and that the period of temporary grandfathering provided is not unreasonably long in light of divestiture experience under the Bank Holding Company Act.

The Board shares Congress' concern that the policies of the Glass-Steagall Act and the Bank Holding Company Act be enforced; however, rather than abolish existing foreign-owned bank affiliations that would be prohibited by those Acts, it seems that a better and fairer course of action would be to give the Board the power to terminate such affiliations if, in a particular case, the Board found, after notice and opportunity for hearing, that such action was warranted. Congress, in fact, adopted

this type of procedure in connection with its permanent grandfathering of certain of the nonbanking interests of one-bank holding companies in 1970. The Board has suggested a similar review power over any permanently grandfathered nonbanking interests of foreign banks in section 4(2) of S. 958.

Other Regulatory Issues Involving Foreign Banks

In transmitting its proposed legislation to the Congress, the Board indicated that its proposal would not cover foreign bank operations conducted through so-called New York Investment Companies, and would not specifically amend the Bank Holding Company Act in order to subject the several foreign bank shareholders of the European-American Bank and Trust Company, New York, New York, to the provisions of that Act.

Investment Companies organized under Article XII of the New York Banking Law have many of the same banking and financing powers as agencies of foreign banks. Seven domestically-owned Investment Companies appear to be primarily engaged in finance company operations; four foreign-owned Investment Companies are either subsidiaries or affiliates of foreign banks and appear to conduct the same type of commercial banking operations carried on by agencies. In excluding foreign-owned Investment Companies from the coverage of its proposed legislation, the Board was primarily influenced by the fact that only three such companies would have been covered at the time it submitted its proposal and that the New York authorities had customarily discouraged chartering

of these entities in lieu of branch or agency operations. The Board was also concerned that any attempt to cover only the few foreign-owned companies would be regarded as a discriminatory action by foreign authorities.

The Board notes that since submitting its legislation, the New York banking authorities have chartered an additional investment company subsidiary of a foreign bank and have received an application to organize another investment company from a private foreign bank. The Board understands, however, that the New York authorities are currently reviewing their policies on chartering investment companies for foreign banks.

The Board believes that there is a potential for avoidance of the objectives of its proposed legislation if foreign banks can readily obtain investment company charters in lieu of agency or branch licenses. The Board thus recommends that all future investment companies that would be chartered to engage in a commercial banking business be subjected to the same scope of federal regulation that has been suggested for agencies and branches in order to close this potential loophole.

With respect to domestic banks owned by several foreign banks, the Board notes that, in addition to European-American, the New York banking authorities recently chartered a new bank--UBAF Arab-American Bank--that will be owned by a group of 11 Arab banks, five foreign consortium banks controlled by Arab banks, and four domestic bank holding companies, the latter each having only a statutorily permitted 5 per cent interest. The Board recently considered the question of whether

a bank holding company was being formed in the organization of UBAF and determined that, on the basis of certain specific undertakings made by each of the shareholders of the bank with the Board, that a "company" had not been formed and that an application was not required under the Act. The cases of European-American and UBAF, among others, however, demonstrate that the current definitions of "control" and "company" in the Act do not appear to cover certain multiple ownership situations where independent shareholders might act in concert to control a bank, but do not constitute themselves into a corporation, partnership, association or similar organization. Since this consortium form of arrangement might become an attractive vehicle for entry if branches and agencies of foreign banks are subjected to federal regulation under the Bank Holding Company Act, the Board recommends that Congress amend the Bank Holding Company Act to give the Board jurisdiction over situations where independent shareholders that do not form themselves into a company, as currently defined in the Act, nevertheless act in concert to control a bank. Since the scope and impact of any such amendment will depend, to a great degree, on the precise legal language chosen, the Board, at your request, will be glad to suggest several alternative amendments to the Bank Holding Company Act and to describe the ways in which such amendments would affect the shareholders involved. It should be noted that any such amendment would apply to domestic as well as foreign companies and thus the Congress may also want to consider such an amendment in the context of Bank Holding Company legislation.

Conclusion

This nation's domestic banking system is, of course, currently undergoing a thorough reexamination by the Congress and we at the Federal Reserve welcome this study and are glad to provide whatever assistance we may be called upon to give. It is our belief, however, that the enactment of legislation regulating foreign bank operations in the United States should not await or be made contingent upon the resolution of more fundamental domestic banking issues, such as whether U.S. banks should be allowed to engage in multi-State operations or securities activities. In our judgment, if foreign bank regulation is tied to such fundamental domestic changes, an undesirable end result will be further postponement of the enactment of any legislation regulating foreign bank operations in the United States. The longer such legislation is delayed, the more difficult will be our task in this regard, since foreign bank operations will continue to grow, thus making grandfathering proposals less acceptable and increasing the likelihood of retaliatory pressures against our banks abroad. The Board thus strongly recommends enactment of S. 958 during 1976.

Appendix to Statement by

George W. Mitchell

Vice Chairman, Board of Governors of the Federal Reserve System
Prepared by Staff of the Board of Governors

C & I loans to foreign borrowers represented less than one-quarter of their total C & I loans. This ratio is larger than the comparable ratio for domestic banks and reflects the international character of the foreign banking institutions' business. Nevertheless, more than three-quarters of the total value of C & I loans of the U.S. offices of foreign banks represent loans to domestic borrowers. Clearly the C & I loans of the foreign banking organizations constitute a significant share of an important U.S. banking activity.

Aside from their important lending to nonbank borrowers, the foreign banking institutions in the United States have been active in U.S. money markets. Their money-market assets, largely placements with other banks, were over $12 billion in September 1975, and their money-market liabilities, largely short-term borrowings from U.S. banks, were only slightly smaller. Money market activities serve as a source of liquidity for these institutions and help them manage the dollar positions of their parent organizations. The extensive money-market activities also closely connect the U.S. activities of foreign banks with U.S. money and credit markets.

Demand deposits and credit balances of foreign banking institutions in the United States remain small, reflecting the wholesale nature of their business. These liabilities have been growing, however, as of November 1972 they amounted to a little under $2 billion; by September 1975, they had more than doubled to just over $4 billion. Time and savings deposits at these institutions are larger and have been

GROWTH OF FOREIGN BANK OPERATIONS IN THE UNITED STATES

The growth of the activities of foreign banks in the United States from November 1972, when the Federal Reserve began its monthly reporting system for their operations, through September 1975, has been extremely rapid. During this period the number of U.S. banking institutions owned by foreign banks increased from 104 to 181, and their total U.S. assets more than doubled from $24 billion in November 1972 to $56 billion in September 1975. Excluding clearing transactions and transactions with parent banks and affiliates, "standard" banking assets--defined as loans, money market assets, securities, and miscellaneous assets--of foreign banking institutions in the United States increased from $18 billion in November 1972 to $41 billion in September 1975.

The data in Tables 1a, 1b, 2a and 2b in the Appendix show the principal assets and liabilities of the U.S. offices of foreign banks in November 1972 and September 1975. These data indicate that the most noteworthy aspect of the expansion of U.S. activities of foreign banks in this period has been the size and rapid growth of their commercial and industrial (C & I) loans, which more than doubled in value from $11 billion in November 1972 to $23 billion in September 1975. In November 1972, the value of foreign banking organizations' C & I loans was equal to one-eighth the value of C & I loans held by large banks which report weekly to the Federal Reserve; by September 1975, this fraction had risen to about one-fifth. In that month foreign banking institutions'

growing even more rapidly--from $4 billion to $11 billion over the same period; as of September 1975, they were equal to about 5 per cent of time and savings deposits at weekly reporting banks.

In addition to their lending and deposit activities, foreign banking institutions have also been active in international transactions, both with their parent banks and affiliates and with unrelated foreign institutions. Gross claims on foreigners rose from $6 billion in November 1972 to $16 billion in September 1975, and gross liabilities to foreigners rose from $13 billion to $25 billion over the same period, resulting in an increase in net liabilities to foreigners from $7 to $9 billion. Included in these international transactions as of September 1975 were net advances of $8 billion from related institutions outside the United States. The extensive international transactions of the U.S. offices of foreign banks can and often do have an impact on the overall international payments position of the United States.

The growth of foreign banking operations in the United States has taken place through agencies, branches, and subsidiary banks, the particular organizational form depending on State law and on the preference of the parent bank. As of September 1975, foreign banks maintained eighty agencies in the United States which accounted for nearly one-half of the standard banking assets of foreign banking institutions in the United States and reflected primarily the activities of Japanese and Canadian banks. Sixty-four branches of foreign banks accounted for a little over one-quarter of standard banking assets, while thirty-three subsidiary commercial banks accounted for a little under one-quarter of these assets.

New York and California are the most desirable locations for U.S. offices of foreign banks because of their importance as trade and financial centers and because of generally liberal State laws permitting entry by foreign banking institutions. Illinois enacted legislation in late 1973 permitting foreign banks to establish branches in the Chicago area, but the standard banking assets of these branches had risen to only about $1 billion as of September 1975.

The standard banking assets of foreign banks in New York have grown from $14 billion in November 1972 to $29 billion in September 1975, while during this same period New York's share declined from 78 per cent to 73 per cent of the total for the entire United States. (See Tables 3a, 3b, 4a and 4b in the Appendix.) Traditionally, foreign banking activity in New York has been dominated by the activities of the Japanese and Canadian agencies. Canadian banks have been restricted to the agency form of operation because of reciprocity provisions in New York State law. Japanese banks have preferred the agency form of operation in New York because it permits them not only to borrow funds in U.S. money markets but also to lend without regulatory limits on the amounts loaned to individual borrowers.

In recent years, however, the most significant advances in the New York market have been through branches of foreign banks. Their total standard banking assets increased from $3 billion in November 1972 to nearly $9 billion in September 1975, when they accounted for slightly less than one-third of the standard banking assets of all offices of foreign banks in New York. The rapid growth of these branches, many

with head offices in the United Kingdom and Continental Western Europe, has greatly changed the geographic pattern of ownership of foreign banks in New York and has increased the diversity of institutions conducting business in the New York market.

Although second to New York in terms of total foreign banking activity, the rate of growth of foreign bank activities in California has been somewhat more rapid, with total standard assets of foreign banks growing from less than $4 billion in November 1972 to over $9 billion in September 1975. As of September 1975, California accounted for 23 per cent of total foreign bank activity in the United States. (See Tables 5a, 5b, 6a and 6b in the Appendix.)

The largest foreign bank operations in California are the agencies, mainly Japanese agencies which engage heavily in net borrowings from other banks. These borrowings are used to finance their loan portfolios and to supply about $3 billion net to related institutions elsewhere in the United States.

The operations of California State subsidiaries of foreign banks continue to be smaller than the activities of the agencies. As of September 1975, these State chartered banks held a total of about $4 billion of standard banking assets, approximately one-quarter of which represented the acquisition of the State-wide branch network of First Western by Lloyd's Bank International. Another one-half of these assets represents the activities of the U.S. subsidiaries of Japanese banks which are engaged in retail banking activities. The share of the Japanese subsidiaries in the total will increase somewhat when later

data include the merging of Southern California First National Bank of San Diego with total assets of about $900 million into California First Bank which is owned by the Bank of Tokyo. Including the results of this merger, total deposits at Japanese subsidiary banks will equal somewhat less than 4 per cent of the deposits of weekly reporting banks in California.

The foregoing discussion has given only a brief outline of the size, growth, and composition of the U.S. activities of foreign banks. The availability of detailed monthly data permits more comprehensive analysis of these activities, and some work in this area is currently under way by the Board's staff. It must be clearly noted, however, that the absolute size and rapid growth of the U.S. activities of foreign banks, and their impact on domestic money markets, domestic lending, local retail banking, and the international payments position of the United States require that these activities be supervised and regulated in a manner consistent with the regulation and supervision of domestic banks.

Table 1a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	24,317	13,635	5,302	4,064	1,316
ASSETS OF "STANDARD" BANKING BUSINESS	18,073	9,959	3,283	3,747	1,084
LOANS AND CREDITS	11,286	6,979	1,485	2,106	717
COMMERCIAL AND INDUSTRIAL	10,507	6,942	1,374	1,495	696
(U.S.)	(8,275)	(5,533)	(898)	(1,336)	(508)
(FOREIGN)	(2,232)	(1,410)	(476)	(158)	(188)
MISC. U.S. LOANS INCLUDING RETAIL	779	36	111	611	21
MONEY-MARKET ASSETS	5,753	2,714	1,558	1,253	229
INTERBANK LOANS AND DEPOSITS	2,949	1,480	1,219	170	81
(U.S.)	(2,383)	(1,254)	(945)	(138)	(46)
(FOREIGN)	(567)	(227)	(273)	(32)	(34)
LOANS TO SECURITY DEALERS	1,183	789	194	105	95
U.S. GOVT. AND AGENCY SECURITIES	1,620	445	146	978	53
MISCELLANEOUS ASSETS	1,034	267	241	388	138
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,244	3,676	2,019	318	232
CLEARING BALANCES DUE FROM OTHERS	1,968	702	809	283	175
DUE FROM U.S. BANKING AFFILIATES	1,762	1,362	388	7	5
DUE FROM FOREIGN PARENT & AFFILIATES	2,515	1,612	823	28	53

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 1b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	24,317	13,635	5,302	4,064	1,316
LIABILITIES OF "STANDARD" BANKING BUSINESS	10,606	3,875	2,729	3,173	828
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	6,156	794	2,024	2,884	454
DEMAND DEPOSITS AND CREDIT BALANCES	1,835	320	460	946	108
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	4,321	473	1,564	1,939	345
(DEPOSITS OF U.S. RESIDENTS)	(4,196)	(420)	(1,186)	(2,499)	(92)
(DEPOSITS OF FOREIGNERS)	(1,960)	(374)	(838)	(386)	(362)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	2,635	1,924	339	123	248
U.S. BANKS	2,241	1,803	313	92	33
FOREIGN BANKS	394	121	26	32	215
MISCELLANEOUS LIABILITIES	1,816	1,158	366	166	126
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	13,053	9,669	2,528	475	380
CLEARING BALANCES DUE TO OTHERS	1,544	786	422	176	160
DUE TO U.S. BANKING AFFILIATES	1,971	1,616	138	212	5
DUE TO FOREIGN PARENT AND AFFILIATES	9,537	7,268	1,968	87	214
CAPITAL ACCOUNTS AND RESERVES	658	90	45	416	108
NUMBER OF REPORTING INSTITUTIONS	104	50	26	25	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 2a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	56,477	26,284	16,710	10,880	2,603
ASSETS OF "STANDARD" BANKING BUSINESS	40,593	17,954	10,820	9,847	1,973
LOANS AND CREDITS	25,017	12,974	5,019	5,725	1,298
COMMERCIAL AND INDUSTRIAL	22,881	12,923	4,819	3,858	1,280
(U.S.)	(17,666)	(10,406)	(3,011)	(3,274)	(975)
(FOREIGN)	(5,215)	(2,517)	(1,808)	(585)	(305)
MISC. U.S. LOANS INCLUDING RETAIL	2,135	51	200	1,867	17
MONEY-MARKET ASSETS	12,301	4,048	5,223	2,585	445
INTERBANK LOANS AND DEPOSITS	9,157	3,491	4,770	614	282
(U.S.)	(7,092)	(2,992)	(3,438)	(534)	(127)
(FOREIGN)	(2,065)	(498)	(1,332)	(80)	(155)
LOANS TO SECURITY DEALERS	351	191	123	36	0
U.S. GOVT. AND AGENCY SECURITIES	2,793	366	330	1,935	162
MISCELLANEOUS ASSETS	3,276	931	578	1,536	230
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	15,883	8,330	5,890	1,033	630
CLEARING BALANCES DUE FROM OTHERS	4,061	820	2,174	643	424
DUE FROM U.S. BANKING AFFILIATES	4,959	4,189	649	107	15
DUE FROM FOREIGN PARENT & AFFILIATES	6,864	3,321	3,067	283	192

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 2b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	56,477	26,284	16,710	10,880	2,603
LIABILITIES OF "STANDARD" BANKING BUSINESS	31,282	12,578	8,237	8,807	1,660
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	15,517	1,827	5,377	7,565	748
DEMAND DEPOSITS AND CREDIT BALANCES	4,203	487	1,074	2,479	162
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	11,314	1,339	4,302	5,086	586
(DEPOSITS OF U.S. RESIDENTS)	(9,607)	(727)	(1,835)	(6,856)	(188)
(DEPOSITS OF FOREIGNERS)	(5,910)	(1,099)	(3,542)	(708)	(560)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	11,731	8,095	2,357	637	643
U.S. BANKS	10,219	7,901	1,857	385	76
FOREIGN BANKS	1,513	194	500	252	567
MISCELLANEOUS LIABILITIES	4,034	2,656	503	605	269
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	23,433	13,407	8,334	909	783
CLEARING BALANCES DUE TO OTHERS	2,717	1,097	1,000	324	297
DUE TO U.S. BANKING AFFILIATES	5,365	2,977	2,010	366	12
-DUE TO FOREIGN PARENT AND AFFILIATES	15,351	9,332	5,325	220	475
CAPITAL ACCOUNTS AND RESERVES	1,761	299	139	1,164	160
NUMBER OF REPORTING INSTITUTIONS	181	80	64	33	4

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 3a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN --------------NEW YORK
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	17,882	10,019	4,412	2,136	1,316
ASSETS OF "STANDARD" BANKING BUSINESS	14,067	8,060	2,990	1,933	1,084
LOANS AND CREDITS	8,200	5,328	1,234	922	717
COMMERCIAL AND INDUSTRIAL	8,002	5,296	1,195	814	696
(U.S.)	(6,052)	(4,063)	(719)	(762)	(508)
(FOREIGN)	(1,949)	(1,233)	(476)	(52)	(188)
MISC. U.S. LOANS INCLUDING RETAIL	199	32	39	107	21
MONEY-MARKET ASSETS	4,976	2,502	1,531	715	229
INTERBANK LOANS AND DEPOSITS	2,658	1,282	1,195	100	81
(U.S.)	(2,242)	(1,181)	(945)	(70)	(46)
(FOREIGN)	(416)	(101)	(250)	(31)	(34)
LOANS TO SECURITY DEALERS	1,175	789	192	98	95
U.S. GOVT. AND AGENCY SECURITIES	1,142	431	143	517	53
MISCELLANEOUS ASSETS	891	230	226	296	138
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	3,815	1,959	1,422	202	232
CLEARING BALANCES DUE FROM OTHERS	1,822	678	785	184	175
DUE FROM U.S. BANKING AFFILIATES	114	85	23	2	5
DUE FROM FOREIGN PARENT & AFFILIATES	1,879	1,195	615	17	53

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 3b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ------------NEW YORK
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	17,882	10,019	4,412	2,136	1,316
LIABILITIES OF "STANDARD" BANKING BUSINESS	6,390	1,908	2,053	1,601	828
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	3,793	522	1,404	1,414	454
DEMAND DEPOSITS AND CREDIT BALANCES	1,316	301	379	527	108
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	2,477	221	1,024	887	345
(DEPOSITS OF U.S. RESIDENTS)	(2,102)	(352)	(600)	(1,058)	(92)
(DEPOSITS OF FOREIGNERS)	(1,692)	(170)	(803)	(356)	(362)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,226	572	313	94	248
U.S. BANKS	968	571	287	77	33
FOREIGN BANKS	258	0	26	17	215
MISCELLANEOUS LIABILITIES	1,370	814	337	93	126
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	11,044	8,047	2,323	294	380
CLEARING BALANCES DUE TO OTHERS	1,479	776	405	137	160
DUE TO U.S. BANKING AFFILIATES	810	690	13	101	5
DUE TO FOREIGN PARENT AND AFFILIATES	8,755	6,581	1,905	56	214
CAPITAL ACCOUNTS AND RESERVES	448	63	37	240	108
NUMBER OF REPORTING INSTITUTIONS	63	26	20	14	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 4a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ------------NEW YORK
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	38,352	15,975	13,445	6,329	2,603
ASSETS OF "STANDARD" BANKING BUSINESS	29,477	12,883	8,975	5,646	1,973
LOANS AND CREDITS	16,862	9,046	3,565	2,953	1,298
COMMERCIAL AND INDUSTRIAL	16,248	8,999	3,482	2,487	1,280
(U.S.)	(11,972)	(6,992)	(2,030)	(1,975)	(975)
(FOREIGN)	(4,276)	(2,006)	(1,452)	(512)	(305)
MISC. U.S. LOANS INCLUDING RETAIL	614	47	83	466	17
MONEY-MARKET ASSETS	9,990	3,162	4,907	1,476	445
INTERBANK LOANS AND DEPOSITS	7,726	2,630	4,476	338	282
(U.S.)	(5,920)	(2,290)	(3,223)	(280)	(127)
(FOREIGN)	(1,806)	(339)	(1,253)	(58)	(155)
LOANS TO SECURITY DEALERS	344	191	121	31	0
U.S. GOVT. AND AGENCY SECURITIES	1,920	341	309	1,107	162
MISCELLANEOUS ASSETS	2,625	676	503	1,216	230
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	8,876	3,092	4,471	683	630
CLEARING BALANCES DUE FROM OTHERS	3,675	747	2,116	388	424
DUE FROM U.S. BANKING AFFILIATES	514	115	304	80	15
DUE FROM FOREIGN PARENT & AFFILIATES	4,687	2,230	2,051	215	192

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 4b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -------------NEW YORK
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	38,352	15,975	13,445	6,329	2,603
LIABILITIES OF "STANDARD" BANKING BUSINESS	18,547	4,973	6,855	5,059	1,660
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	10,357	1,036	4,436	4,137	748
DEMAND DEPOSITS AND CREDIT BALANCES	2,918	449	927	1,380	162
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	7,439	587	3,509	2,757	586
(DEPOSITS OF U.S. RESIDENTS)	(5,225)	(368)	(1,160)	(3,509)	(188)
(DEPOSITS OF FOREIGNERS)	(5,132)	(668)	(3,276)	(628)	(560)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	5,183	2,000	2,021	519	643
U.S. BANKS	3,935	2,000	1,585	273	76
FOREIGN BANKS	1,248	0	436	245	567
MISCELLANEOUS LIABILITIES	3,007	1,937	398	403	269
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	18,603	10,798	6,486	536	783
CLEARING BALANCES DUE TO OTHERS	2,535	1,019	985	235	297
DUE TO U.S. BANKING AFFILIATES	2,744	1,992	571	169	12
DUE TO FOREIGN PARENT AND AFFILIATES	13,325	7,788	4,930	132	475
CAPITAL ACCOUNTS AND RESERVES	1,202	204	104	734	160
NUMBER OF REPORTING INSTITUTIONS	86	36	30	16	4

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 5a

U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,511	3,616	0	1,895	0
ASSETS OF "STANDARD" BANKING BUSINESS	3,679	1,899	0	1,780	0
LOANS AND CREDITS	2,810	1,651	0	1,159	0
COMMERCIAL AND INDUSTRIAL	2,303	1,646	0	656	0
(U.S.)	(2,020)	(1,469)	(0)	(551)	(0)
(FOREIGN)	(282)	(177)	(0)	(106)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	507	5	0	503	0
MONEY-MARKET ASSETS	742	212	0	529	0
INTERBANK LOANS AND DEPOSITS	262	198	0	64	0
(U.S.)	(134)	(72)	(0)	(62)	(0)
(FOREIGN)	(128)	(126)	(0)	(2)	(0)
LOANS TO SECURITY DEALERS	7	0	0	7	0
U.S. GOVT. AND AGENCY SECURITIES	473	14	0	459	0
MISCELLANEOUS ASSETS	128	36	0	91	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,832	1,717	0	115	0
CLEARING BALANCES DUE FROM OTHERS	121	23	0	98	0
DUE FROM U.S. BANKING AFFILIATES	1,282	1,277	0	6	0
DUE FROM FOREIGN PARENT & AFFILIATES	428	417	0	11	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 5b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	5,511	3,616	0	1,895	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	3,525	1,968	0	1,558	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,736	271	0	1,465	0
DEMAND DEPOSITS AND CREDIT BALANCES	434	19	0	416	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	1,302	252	0	1,050	0
(DEPOSITS OF U.S. RESIDENTS)	(1,503)	(68)	(0)	(1,435)	(0)
(DEPOSITS OF FOREIGNERS)	(233)	(204)	(0)	(30)	(0)
MONEY-MARKET LIABILITIES					
- INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,381	1,352	0	29	0
U.S. BANKS	1,246	1,232	0	14	0
FOREIGN BANKS	136	121	0	15	0
MISCELLANEOUS LIABILITIES	408	344	0	63	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,788	1,622	0	166	0
CLEARING BALANCES DUE TO OTHERS	47	9	0	38	0
DUE TO U.S. BANKING AFFILIATES	1,034	925	0	108	0
DUE TO FOREIGN PARENT AND AFFILIATES	707	687	0	19	0
CAPITAL ACCOUNTS AND RESERVES	198	27	0	171	0
NUMBER OF REPORTING INSTITUTIONS	34	24	0	10	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 6a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ----------CALIFORNIA
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	14,725	10,304	0	4,421	0
ASSETS OF "STANDARD" BANKING BUSINESS	9,146	5,066	0	4,079	0
LOANS AND CREDITS	6,631	3,928	0	2,703	0
COMMERCIAL AND INDUSTRIAL	5,235	3,924	0	1,311	0
(U.S.)	(4,662)	(3,413)	(0)	(1,249)	(0)
(FOREIGN)	(573)	(511)	(0)	(62)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	1,396	4	0	1,392	0
MONEY-MARKET ASSETS	1,944	883	0	1,060	0
INTERBANK LOANS AND DEPOSITS	1,100	858	0	243	0
(U.S.)	(922)	(699)	(0)	(223)	(0)
(FOREIGN)	(179)	(159)	(0)	(20)	(0)
LOANS TO SECURITY DEALERS	5	0	0	5	0
U.S. GOVT. AND AGENCY SECURITIES	838	25	0	813	0
MISCELLANEOUS ASSETS	571	255	0	316	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	5,580	5,238	0	342	0
CLEARING BALANCES DUE FROM OTHERS	319	73	0	246	0
DUE FROM U.S. BANKING AFFILIATES	4,100	4,073	0	27	0
DUE FROM FOREIGN PARENT & AFFILIATES	1,160	1,091	0	69	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 6b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ----------CALIFORNIA
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	14,725	10,304	0	4,421	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	11,259	7,605	0	3,654	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	4,143	791	0	3,352	0
DEMAND DEPOSITS AND CREDIT BALANCES	1,119	39	0	1,081	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	3,023	752	0	2,271	0
(DEPOSITS OF U.S. RESIDENTS)	(3,634)	(359)	(0)	(3,275)	(0)
(DEPOSITS OF FOREIGNERS)	(508)	(432)	(0)	(77)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	6,199	6,095	0	103	0
U.S BANKS	6,000	5,901	0	98	0
FOREIGN BANKS	199	194	0	5	0
MISCELLANEOUS LIABILITIES	917	719	0	198	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,959	2,604	0	354	0
CLEARING BALANCES DUE TO OTHERS	165	78	0	86	0
DUE TO U.S. BANKING AFFILIATES	1,182	986	0	196	0
DUE TO FOREIGN PARENT AND AFFILIATES	1,612	1,540	0	72	0
CAPITAL ACCOUNTS AND RESERVES	508	94	0	413	0
NUMBER OF REPORTING INSTITUTIONS	58	43	0	15	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 7a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	10,968	8,766	190	2,012	0
ASSETS OF "STANDARD" BANKING BUSINESS	8,814	6,857	43	1,914	0
LOANS AND CREDITS	7,080	5,834	19	1,227	0
COMMERCIAL AND INDUSTRIAL	6,741	5,834	19	888	0
(U.S.)	(5,397)	(4,612)	(19)	(767)	(0)
(FOREIGN)	(1,343)	(1,222)	(0)	(121)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	339	0	0	339	0
MONEY-MARKET ASSETS	1,506	873	24	609	0
INTERBANK LOANS AND DEPOSITS	744	661	23	60	0
(U.S.)	(668)	(609)	(0)	(60)	(0)
(FOREIGN)	(76)	(52)	(23)	(1)	(0)
LOANS TO SECURITY DEALERS	20	20	0	0	0
U.S. GOVT. AND AGENCY SECURITIES	741	192	1	548	0
MISCELLANEOUS ASSETS	228	150	0	78	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,154	1,909	147	98	0
CLEARING BALANCES DUE FROM OTHERS	440	343	2	94	0
DUE FROM U.S. BANKING AFFILIATES	1,451	1,325	124	1	0
DUE FROM FOREIGN PARENT & AFFILIATES	264	241	21	3	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 7b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ----------------JAPAN
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	10,968	8,766	190	2,012	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	4,691	3,044	58	1,589	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,904	387	40	1,477	0
DEMAND DEPOSITS AND CREDIT BALANCES	556	130	7	419	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	1,348	257	33	1,058	0
(DEPOSITS OF U.S. RESIDENTS)	(1,762)	(365)	(39)	(1,358)	(0)
(DEPOSITS OF FOREIGNERS)	(142)	(21)	(1)	(119)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,700	1,659	8	33	0
U.S. BANKS	1,685	1,659	8	18	0
FOREIGN BANKS	15	0	0	15	0
MISCELLANEOUS LIABILITIES	1,088	998	10	80	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,042	5,665	127	250	0
CLEARING BALANCES DUE TO OTHERS	389	362	0	27	0
DUE TO U.S. BANKING AFFILIATES	1,647	1,318	125	205	0
DUE TO FOREIGN PARENT AND AFFILIATES	4,006	3,986	2	19	0
CAPITAL ACCOUNTS AND RESERVES	235	57	5	173	0
NUMBER OF REPORTING INSTITUTIONS	28	21	1	6	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 8a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	23,161	17,829	1,931	3,401	0
ASSETS OF "STANDARD" BANKING BUSINESS	16,828	12,743	934	3,151	0
LOANS AND CREDITS	13,074	10,308	781	1,986	0
COMMERCIAL AND INDUSTRIAL	12,516	10,292	781	1,443	0
(U.S.)	(10,125)	(8,352)	(441)	(1,331)	(0)
(FOREIGN)	(2,391)	(1,940)	(339)	(112)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	558	15	0	543	0
MONEY-MARKET ASSETS	3,058	2,008	144	906	0
INTERBANK LOANS AND DEPOSITS	1,968	1,687	139	143	0
(U.S.)	(1,801)	(1,528)	(138)	(136)	(0)
(FOREIGN)	(167)	(159)	(1)	(7)	(0)
LOANS TO SECURITY DEALERS	30	30	0	0	0
U.S. GOVT. AND AGENCY SECURITIES	1,059	291	5	763	0
MISCELLANEOUS ASSETS	696	427	9	260	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,333	5,086	997	250	0
CLEARING BALANCES DUE FROM OTHERS	507	337	12	158	0
DUE FROM U.S. BANKING AFFILIATES	3,721	3,608	94	19	0
DUE FROM FOREIGN PARENT & AFFILIATES	2,105	1,141	891	73	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 8b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --------------JAPAN
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	23,161	17,829	1,931	3,401	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	12,828	9,688	560	2,580	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	3,784	1,037	358	2,389	0
DEMAND DEPOSITS AND CREDIT BALANCES	882	225	28	629	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	2,902	812	330	1,760	0
(DEPOSITS OF U.S. RESIDENTS)	(3,109)	(622)	(302)	(2,185)	(0)
(DEPOSITS OF FOREIGNERS)	(675)	(415)	(56)	(204)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	6,565	6,351	149	65	0
U.S. BANKS	6,564	6,351	149	64	0
FOREIGN BANKS	1	0	0	1	0
MISCELLANEOUS LIABILITIES	2,479	2,300	53	125	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	9,696	7,925	1,349	423	0
CLEARING BALANCES DUE TO OTHERS	467	416	2	49	0
DUE TO U.S. BANKING AFFILIATES	4,170	2,693	1,141	336	0
DUE TO FOREIGN PARENT AND AFFILIATES	5,060	4,816	206	38	0
CAPITAL ACCOUNTS AND RESERVES	637	216	22	398	0
NUMBER OF REPORTING INSTITUTIONS	47	31	6	10	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 9a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --------------CANADA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,033	4,083	567	382	0
ASSETS OF "STANDARD" BANKING BUSINESS	3,200	2,617	244	339	0
LOANS AND CREDITS	1,317	940	227	150	0
COMMERCIAL AND INDUSTRIAL	1,131	906	156	70	0
(U.S.)	(996)	(772)	(155)	(68)	(0)
(FOREIGN)	(135)	(134)	(0)	(2)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	186	34	71	81	0
MONEY-MARKET ASSETS	1,720	1,586	3	131	0
INTERBANK LOANS AND DEPOSITS	626	607	0	19	0
(U.S.)	(563)	(544)	(0)	(18)	(0)
(FOREIGN)	(64)	(63)	(0)	(1)	(0)
LOANS TO SECURITY DEALERS	783	768	1	14	0
U.S. GOVT. AND AGENCY SECURITIES	311	211	2	98	0
MISCELLANEOUS ASSETS	163	91	14	57	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,833	1,467	323	43	0
CLEARING BALANCES DUE FROM OTHERS	368	314	21	33	0
DUE FROM U.S. BANKING AFFILIATES	280	36	240	4	0
DUE FROM FOREIGN PARENT & AFFILIATES	1,185	1,117	62	6	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 9b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN -------------CANADA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	5,033	4,083	567	382	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	1,140	354	486	301	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	931	200	449	283	0
DEMAND DEPOSITS AND CREDIT BALANCES	338	129	72	137	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	593	70	377	146	0
(DEPOSITS OF U.S. RESIDENTS)	(667)	(49)	(416)	(202)	(0)
(DEPOSITS OF FOREIGNERS)	(264)	(151)	(33)	(80)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	108	88	19	1	0
U.S. BANKS	107	88	19	1	0
FOREIGN BANKS	1	0	0	1	0
MISCELLANEOUS LIABILITIES	101	66	18	17	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	3,820	3,720	79	21	0
CLEARING BALANCES DUE TO OTHERS	392	367	17	8	0
DUE TO U.S. BANKING AFFILIATES	284	284	0	1	0
DUE TO FOREIGN PARENT AND AFFILIATES	3,143	3,069	62	12	0
CAPITAL ACCOUNTS AND RESERVES	73	10	3	60	0
NUMBER OF REPORTING INSTITUTIONS	21	9	4	8	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 10a

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --------------CANADA
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	6,577	5,469	580	528	0
ASSETS OF "STANDARD" BANKING BUSINESS	4,312	3,380	443	489	0
LOANS AND CREDITS	2,750	2,083	397	270	0
COMMERCIAL AND INDUSTRIAL	2,480	2,054	282	144	0
(U.S.)	(2,097)	(1,678)	(281)	(137)	(0)
(FOREIGN)	(384)	(375)	(1)	(7)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	270	29	115	126	0
MONEY-MARKET ASSETS	1,147	964	11	172	0
INTERBANK LOANS AND DEPOSITS	862	809	5	49	0
(U.S.)	(708)	(655)	(5)	(49)	(0)
(FOREIGN)	(154)	(154)	(0)	(0)	(0)
LOANS TO SECURITY DEALERS	156	146	1	9	0
U.S. GOVT. AND AGENCY SECURITIES	128	9	5	114	0
MISCELLANEOUS ASSETS	415	332	35	47	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,265	2,089	137	39	0
-CLEARING BALANCES DUE FROM OTHERS	270	231	17	23	0
DUE FROM U.S. BANKING AFFILIATES	194	126	68	1	0
DUE FROM FOREIGN PARENT & AFFILIATES	1,801	1,733	52	16	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 10b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ------------CANADA
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	6,577	5,469	580	528	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	2,055	1,215	466	374	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	918	214	348	357	0
DEMAND DEPOSITS AND CREDIT BALANCES	390	139	91	160	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	528	75	256	197	0
(DEPOSITS OF U.S. RESIDENTS)	(656)	(74)	(298)	(284)	(0)
(DEPOSITS OF FOREIGNERS)	(262)	(139)	(50)	(73)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	857	777	77	3	0
U.S. BANKS	808	773	32	3	0
FOREIGN BANKS	49	4	45	0	0
MISCELLANEOUS LIABILITIES	280	225	41	14	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	4,410	4,232	104	74	0
CLEARING BALANCES DUE TO OTHERS	392	373	10	9	0
DUE TO U.S. BANKING AFFILIATES	202	162	23	17	0
DUE TO FOREIGN PARENT AND AFFILIATES	3,816	3,698	71	47	0
CAPITAL ACCOUNTS AND RESERVES	112	21	10	80	0
NUMBER OF REPORTING INSTITUTIONS	25	11	6	8	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 11a

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	2,031	153	1,201	437	239
ASSETS OF "STANDARD" BANKING BUSINESS	1,458	106	761	374	216
LOANS AND CREDITS	760	40	372	213	135
COMMERCIAL AND INDUSTRIAL	625	40	350	112	123
(U.S.)	(413)	(30)	(182)	(108)	(93)
(FOREIGN)	(211)	(9)	(168)	(4)	(30)
MISC. U.S. LOANS INCLUDING RETAIL	135	1	22	101	12
MONEY-MARKET ASSETS	578	61	341	124	53
INTERBANK LOANS AND DEPOSITS	323	52	204	29	38
(U.S.)	(241)	(37)	(162)	(20)	(21)
(FOREIGN)	(82)	(14)	(42)	(9)	(17)
LOANS TO SECURITY DEALERS	106	0	101	4	1
U.S. GOVT. AND AGENCY SECURITIES	150	9	36	91	14
MISCELLANEOUS ASSETS	119	6	48	37	28
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	573	47	440	63	23
CLEARING BALANCES DUE FROM OTHERS	325	8	242	58	17
DUE FROM U.S. BANKING AFFILIATES	20	0	15	2	3
DUE FROM FOREIGN PARENT & AFFILIATES	228	39	183	3	2

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 11b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	2,031	153	1,201	437	239
LIABILITIES OF "STANDARD" BANKING BUSINESS	1,082	71	504	341	165
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	846	7	415	306	118
DEMAND DEPOSITS AND CREDIT BALANCES	301	7	106	147	41
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	545	0	309	159	77
(DEPOSITS OF U.S. RESIDENTS)	(563)	(3)	(268)	(271)	(20)
(DEPOSITS OF FOREIGNERS)	(283)	(4)	(147)	(34)	(98)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	95	16	53	19	7
U.S. BANKS	69	11	53	3	1
FOREIGN BANKS	27	5	0	16	5
MISCELLANEOUS LIABILITIES	140	47	36	17	40
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	870	80	690	52	48
CLEARING BALANCES DUE TO OTHERS	313	40	190	41	42
DUE TO U.S. BANKING AFFILIATES	15	2	6	7	0
DUE TO FOREIGN PARENT AND AFFILIATES	541	37	494	5	6
CAPITAL ACCOUNTS AND RESERVES	79	3	7	44	26
NUMBER OF REPORTING INSTITUTIONS	15	5	5	4	1

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 12a.
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,659	526	2,564	2,294	275
ASSETS OF "STANDARD" BANKING BUSINESS	4,636	412	1,830	2,145	249
LOANS AND CREDITS	2,365	130	813	1,277	144
COMMERCIAL AND INDUSTRIAL	1,540	130	803	475	131
(U.S.)	(953)	(53)	(391)	(433)	(76)
(FOREIGN)	(587)	(77)	(412)	(42)	(55)
MISC. U.S. LOANS INCLUDING RETAIL	825	0	10	802	13
MONEY-MARKET ASSETS	1,937	242	949	661	85
INTERBANK LOANS AND DEPOSITS	1,395	235	895	205	59
(U.S.)	(1,005)	(195)	(591)	(180)	(38)
(FOREIGN)	(390)	(40)	(304)	(26)	(21)
LOANS TO SECURITY DEALERS	11	0	10	1	0
U.S. GOVT. AND AGENCY SECURITIES	531	7	44	454	25
MISCELLANEOUS ASSETS	335	40	67	208	20
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,023	114	734	149	26
CLEARING BALANCES DUE FROM OTHERS	422	17	235	148	21
DUE FROM U.S. BANKING AFFILIATES	262	22	237	0	3
DUE FROM FOREIGN PARENT & AFFILIATES	339	75	262	1	2

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 12b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	5,659	526	2,564	2,294	275
LIABILITIES OF "STANDARD" BANKING BUSINESS	3,758	277	1,265	2,013	204
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	2,820	15	843	1,821	141
DEMAND DEPOSITS AND CREDIT BALANCES	981	15	263	668	35
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	1,839	0	580	1,153	106
(DEPOSITS OF U.S. RESIDENTS)	(2,050)	(8)	(267)	(1,761)	(14)
(DEPOSITS OF FOREIGNERS)	(770)	(7)	(577)	(59)	(127)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	637	199	382	55	1
U.S. BANKS	626	199	372	54	1
FOREIGN BANKS	11	0	10	1	0
MISCELLANEOUS LIABILITIES	302	63	39	137	62
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,645	244	1,277	84	41
CLEARING BALANCES DUE TO OTHERS	473	136	228	68	41
DUE TO U.S. BANKING AFFILIATES	244	1	234	9	0
DUE TO FOREIGN PARENT AND AFFILIATES	928	107	814	7	0
CAPITAL ACCOUNTS AND RESERVES	255	6	23	197	30
NUMBER OF REPORTING INSTITUTIONS	22	5	11	5	1

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 13a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,069	312	2,614	1,066	1,077
ASSETS OF "STANDARD" BANKING BUSINESS	3,718	145	1,732	974	867
LOANS AND CREDITS	1,688	37	598	471	582
COMMERCIAL AND INDUSTRIAL	1,591	37	590	392	573
(U.S.)	(1,184)	(26)	(379)	(364)	(415)
(FOREIGN)	(407)	(11)	(211)	(27)	(158)
MISC. U.S. LOANS INCLUDING RETAIL	97	0	9	80	9
MONEY-MARKET ASSETS	1,646	105	1,024	341	175
INTERBANK LOANS AND DEPOSITS	1,069	103	865	58	43
(U.S.)	(766)	(15)	(691)	(36)	(25)
(FOREIGN)	(303)	(88)	(175)	(22)	(18)
LOANS TO SECURITY DEALERS	233	0	82	56	94
U.S. GOVT. AND AGENCY SECURITIES	344	3	76	227	39
MISCELLANEOUS ASSETS	384	3	110	162	110
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,350	167	882	92	209
CLEARING BALANCES DUE FROM OTHERS	598	5	354	81	157
DUE FROM U.S. BANKING AFFILIATES	11	0	9	0	2
DUE FROM FOREIGN PARENT & AFFILIATES	741	162	519	11	50

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

*-INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 13b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS		AGENCIES		BRANCHES		COMMERCIAL BANKS		INVESTMENT COS.	
TOTAL LIABILITIES AND EQUITY	5,069		312		2,614		1,066		1,077	
LIABILITIES OF "STANDARD" BANKING BUSINESS	2,833		258		1,093		819		663	
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,991		131		817		707		336	
DEMAND DEPOSITS AND CREDIT BALANCES		431		1		156		206		68
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS		1,560		130		661		501		268
(DEPOSITS OF U.S. RESIDENTS)		(1,069)		(0)		(400)		(597)		(72)
(DEPOSITS OF FOREIGNERS)		(922)		(131)		(417)		(110)		(264)
MONEY-MARKET LIABILITIES										
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	638		120		216		61		241	
U.S BANKS		291		5		194		61		32
FOREIGN BANKS		347		116		22		0		210
MISCELLANEOUS LIABILITIES	203		6		60		52		86	
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,015		49		1,512		122		332	
CLEARING BALANCES DUE TO OTHERS	345		4		143		79		118	
DUE TO U.S. BANKING AFFILIATES	19		9		4		0		5	
DUE TO FOREIGN PARENT AND AFFILIATES	1,651		36		1,365		43		208	
CAPITAL ACCOUNTS AND RESERVES	221		6		9		124		82	
NUMBER OF REPORTING INSTITUTIONS	21		6		8		5		2	

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 14a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	17,981	1,297	10,165	4,190	2,328
ASSETS OF "STANDARD" BANKING BUSINESS	12,724	734	6,624	3,642	1,724
LOANS AND CREDITS	5,741	224	2,402	1,961	1,154
COMMERCIAL AND INDUSTRIAL	5,340	224	2,341	1,627	1,149
(U.S.)	(4,003)	(191)	(1,683)	(1,230)	(899)
(FOREIGN)	(1,338)	(33)	(658)	(397)	(250)
- MISC. U.S. LOANS INCLUDING RETAIL	401	0	61	334	4
MONEY-MARKET ASSETS	5,419	479	3,847	733	360
INTERBANK LOANS AND DEPOSITS	4,387	457	3,514	193	223
(U.S.)	(3,080)	(333)	(2,508)	(150)	(88)
(FOREIGN)	(1,307)	(124)	(1,005)	(44)	(135)
LOANS TO SECURITY DEALERS	135	15	108	12	0
U.S. GOVT. AND AGENCY SECURITIES	897	7	225	528	137
MISCELLANEOUS ASSETS	1,564	30	375	949	210
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	5,257	563	3,542	548	604
CLEARING BALANCES DUE FROM OTHERS	2,414	18	1,702	291	402
DUE FROM U.S. BANKING AFFILIATES	760	430	246	72	12
DUE FROM FOREIGN PARENT & AFFILIATES	2,083	115	1,594	185	190

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 14b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN SEPTEMBER 1975
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	17,981	1,297	10,165	4,190	2,328
LIABILITIES OF "STANDARD" BANKING BUSINESS	10,917	752	5,207	3,502	1,456
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	6,847	262	3,300	2,679	607
DEMAND DEPOSITS AND CREDIT BALANCES	1,520	8	454	931	127
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	5,327	254	2,845	1,748	480
(DEPOSITS OF U.S. RESIDENTS)	(3,492)	(15)	(885)	(2,419)	(174)
(DEPOSITS OF FOREIGNERS)	(3,355)	(247)	(2,415)	(260)	(433)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	3,247	471	1,630	505	641
U.S. BANKS	1,868	328	1,206	258	75
FOREIGN BANKS	1,379	143	423	247	567
MISCELLANEOUS LIABILITIES	823	20	277	318	208
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,428	525	4,910	251	742
CLEARING BALANCES DUE TO OTHERS	1,105	63	622	164	256
DUE TO U.S. BANKING AFFILIATES	731	116	603	1	11
DUE TO FOREIGN PARENT AND AFFILIATES	4,591	346	3,685	85	474
CAPITAL ACCOUNTS AND RESERVES	636	19	49	438	130
NUMBER OF REPORTING INSTITUTIONS	47	13	25	6	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 15

Number of Foreign Banking Insitutions in the United States: September 1975

	Agencies	Branches	Subsidiaries	Investment Companies	Total
Japanese Banks					
New York	16	1	3	0	20
California	15	0	6	0	21
Illinois	0	2	1	0	3
Other	0	3	0	0	3
Total	31	6	10	0	47
Canadian Banks					
New York	5	0	5	0	10
California	6	0	3	0	9
Illinois	0	0	0	0	0
Other	0	6	0	0	6
Total	11	6	8	0	25
U.K. Banks					
New York	2	4	2	1	9
California	3	0	3	0	6
Illinois	0	4	0	0	4
Other	0	3	0	0	3
Total	5	11	5	1	22
Continental European Banks					
New York	3	14	4	3	24
California	10	0	1	0	11
Illinois	0	11	1	0	12
Other	0	0	0	0	0
Total	13	25	6	3	47
Banks from Other Countries					
New York	10	11	2	0	23
California	9	0	2	0	11
Illinois	0	4	0	0	4
Other	1	1	0	0	2
Total	20	16	4	0	40
All Foreign Banks					
New York	36	30	16	4	86
California	43	0	15	0	58
Illinois	0	21	2	0	23
Other	1	13	0	0	14
Total	80	64	33	4	181

Table 16a
Foreign Banking Institutions in the United States
listed by Type of Institution, as of September 1975

INSTITUTE CODE

01 AGENCIES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BANCO DI NAPOLI AGENCY	NEW YORK	BANCO DI NAPOLI
BANCO NACL DE MEXICO AGENCY	NEW YORK	BANCO NACL DE MEXICO
BANGKOK BANK LTD AGENCY	NEW YORK	BANGKOK BANK TD
TAIYO KOBE LTD AGENCY	NEW YORK	TAIYO KOBE BANK
BANK LEUMI LE- SRAEL	NEW YORK	BANK EUMI LE-ISRAEL
BANK MELLI IRAN AGENCY	NEW YORK	BANK MELLI IRAN
BANK OF MONTREAL AGENCY	NEW YORK	BANK OF MONTREAL
BANK OF NOVA SCOTIA AGENCY	NEW YORK	BANK OF NOVA SCOTIA
BANK SADERAT IRAN AGENCY	NEW YORK	BANK SADERAT IRAN
BANK OF TOKYO LTD AGENCY	NEW YORK	BANK OF TOKYO
CANAD IMPL BK OF COMM AGENCY	NEW YORK	CANAD IMPL BK OF COMM
THOS COOK AND SON AGENCY	NEW YORK	THOS COOK AND SON
DAI-ICHI KANGYO BANK AGENCY	NEW YORK	DAI-ICHI ANGYO BANK
DAIWA BANK LTD AGENCY	NEW YORK	DAIWA BANK
FUJI BANK TD AGENCY	NEW YORK	FUJI BANK
NTL COMM BK OF CHINA AGENCY	NEW YORK	INTL COMM BK OF CHINA
KOREA EXCHANGE BANK AGENCY	NEW YORK	KOREA EXCHANGE BANK
MITSUBISHI BANK LTD AGENCY	NEW YORK	MITSUBISHI BANK
MITSUI BANK TD AGENCY	NEW YORK	MITSUI BANK
ROYAL BANK OF CANADA AGENCY	NEW YORK	ROYAL BANK OF CANADA
SANWA BANK LTD AGENCY	NEW YORK	SANWA BANK
STANDARD BANK LTD AGENCY	NEW YORK	STAND-CHARTERED GROUP
SUMITOMO BANK LTD AGENCY	NEW YORK	SUMITOMO BANK
TOKAI BANK LTD AGENCY	NEW YORK	TOKAI BANK
TORONTO-DOMINION BANK AGENCY	NEW YORK	TORONTO DOMINION BANK
THE SAITAMA BANK, LTD.	NEW YORK	SAITAMA BANK
INDUSTRIAL BANK OF JAPAN LTD	NEW YORK	INDUST BK OF JAPAN
HOKKAIDO TAKUSHOKU BANK TD.	NEW YORK	HOKKAIDO TAKUSHOKU
OVERSEA UNION BANK LTD	NEW YORK	OVERSEAS UNION
KYOWA BANK	NEW YORK	KYOWA BANK
BANCO DO ESTADO DE SAO PAULO	NEW YORK	ESTADO DE SAO PAULO
THE MITSUI TR & BKNG CO LTD	NEW YOPK	MITSUI TR & BKNG CO.
MITSUBISHI TR & BNKG CORP	NEW YORK	MITSUBISHI TR & BKNG
BANCO MERCANTIL DE SAO PAULO	NEW YORK	MERCANTL DE SAO PAULO
RANCO URQUIJO	NEW YORK	BANCO URQUIJO
BANCO DE BILBAO	NEW YORK	BANCO DE BILBAO
TAIYO KOBE AGENCY	LOS ANGELES	TAIYO KOBE BANK
BANK OF TOKYO AGENCY	LOS ANGELES	BANK OF TOKYO
DAI-ICHI KANGYO BANK AGENCY	LOS ANGELES	DAI-ICHI KANGYO BANK
DAIWA BANK AGENCY	LOS ANGELES	DAIWA BANK

INSTITUTE CODE

01 AGENCIES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
EURO-AM BANKING CORP AGENCY	LOS ANGELES	EUROPEAN-AMER 'GROUP'
FUJI BANK AGENC	LOS ANGELES	FUJI BANK
KOREA EXCHANGE BANK AGENCY	LOS ANGELES	KOREA EXCHANGE BANK
MITSUBISHI BANK LTD AGENCY	LOS ANGELES	MITSUBISHI BANK
MITSUI BANK TD AGENCY	LOS ANGELES	MITSUI BANK
SWISS CREDIT BANK AGENCY	LOS ANGELES	SWISS CREDIT BANK
TOKAI BANK AGENCY	LOS ANGELES	TOKAI BANK
BANCO DI ROMA AGENCY	SAN FRANCISCO	BANCO DI ROMA
BANK OF MONTREAL AGENCY	SAN FRANCISCO	ANK OF MONTREAL
BANK OF NOVA SCOTIA AGENCY	SAN FRANCISCO	BANK OF NOVA SCOTIA
BANK OF TOKYO AGENCY	SAN FRANCISCO	BANK OF TOKYO
BANQUE NATL DE PARIS AGENCY	SAN FRANCISCO	BANQUE NATLE DE PARIS
BARCLAYS BANK INT AGENCY	SAN FRANCISCO	BARCLAYS GROUP
CANAD IMPL BK OF COMM AGENCY	SAN FRANCISCO	CANAD IMPL BK OF COMM
CHARTD BANK OF LONDON AGENCY	SAN FRANCISCO	STAND-CHARTERED GROUP
HONGKONG SHANGHAI BK AGENC	SAN FRANCISCO	HONGKONG AND SHANGHAI
NATL WESTMINSTER BANK AGENCY	SAN FRANCISCO	NATL WESTMINSTER BANK
PHILIPPINE NATL BK AGENCY	SAN FRANCISCO	PHILIPPINE NATL BANK
ROYAL BANK OF CANADA AGENCY	SAN FRANCISCO	ROYAL BANK OF CANADA
SANWA BANK LTD AGENCY	SAN FRANCISCO	SANWA BANK
SUMITOMO BANK LTD AGENCY	SAN FRANCISCO	SUMITOMO BANK
SWISS BANK CORP AGENCY	SAN FRANCISCO	SWISS BANK CORP
TORONTO DOMINION BANK AGENCY	SAN FRANCISCO	TORONTO DOMINION BANK
SHANGHAI COMMERCIAL BANK LTD	SAN FRANCISCO	SHANGHAI COMM BANK
BANK OF BRITISH COLUMBIA	SAN FRANCISCO	BANK OF BRIT COLUM
BANCO DO BRASIL S A	SAN FRANCISCO	BANCO DO BRASIL
THE INDUSTRIAL BK JAPAN LTD	LOS ANGELES	INDUST BK OF JAPAN
BANCO DE COMMERCIO	LOS ANGELES	BANCO DE COMMERCIO
EUROPEAN-AMERICAN BKNG CORP	SAN FRANCISCO	EUROPEAN-AMER 'GROUP'
CREDIT LYONNAI PARI	LOS ANGELES	CREDIT LYONNAIS
BANCA COMMERCIALE ITALIANA	LOS ANGELES	BANCA COMM TALIANA
DRESDNER BK AG FRANKFORT	LOS ANGELES	DRESDNER ANK
HOKKAIDO TAKUSHOKU	LOS ANGELES	HOKKAIDO TAKUSHOKU
SAITAMA BANK	LOS ANGELES	SAITAMA BANK
BANCO DO BRASIL	LOS ANGELES	BANCO DO BRASIL
ALGEMENE BK NEDERLAND	LOS ANGELES	ALGEMENE BK NEDERLAND
BANCO NATL DE MEXICO	LOS ANGELES	BANCO NACL DE MEXICO
KYOWA BANK AGENCY	LOS ANGELES	KYOWA BANK
BANCO REAL	LOS ANGELES	BANCO REAL
PHILIPPINE NATL BK AGENCY	HONOLULU	PHILIPPINE NATL BANK

INSTITUTE CODE

02 BRANCHES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BARCLAYS BANK INTNL	BOSTON	BARCLAYS GROUP
BANCO DE BOGATA	NEW YORK	BANCO DE BOGATA
BANCO DI ROMA	NEW YORK	BANCO DI ROMA
BANCO DO BRASIL BRANCH	NEW YORK	BANCO DO BRASIL
BANCA COMM ITALIANA BRANCH	NEW YORK	BANCA COMM ITALIANA
BANCA NAZLE DEL LAVORO BRANC	NEW YORK	BANCA NAZLE DELLAVORO
BANCO DE LA NACION	NEW YORK	BANCO DE LA NACION
BANCO REAL BRANCH	NEW YORK	BANCO REAL
BANK HAPOALIM, M.	NEW YORK	BANK HAPOALIM
BARCLAYS BANK INTL BRANCH	NEW YORK	BARCLAYS GROUP
CHARTD BANK OF LONDON BRANCH	NEW YORK	STAND-CHARTERED GROUP
COMMERZBANK AKT BRANCH	NEW YORK	COMMERZBANK AKT
CREDIT INDUSTRIEL ET COMML	NEW YORK	COMP FIN DE SUEZ
CREDIT LYONNAIS BRANCH	NEW YORK	CREDIT LYONNAIS
CREDITO ITALIANO	NEW YORK	CREDITO ITALIANO
DRESDNER BANK BRANCH	NEW YORK	DRESDNER BANK
HABIB BANK BRANCH	NEW YORK	HABIB BANK
HONGKONG & SHANGHAI BK BRANC	NEW YORK	HONGKONG AND SHANGHAI
ISRAEL DISCOUNT BANK	NEW YORK	ISRAEL DISCOUNT BK
LLOYDS BK INTL LTD	NEW YORK	LLOYDS-INTL BK
LONG-TERM CREDIT BK OF JAPAN	NEW YORK	LONG TERM CREDIT
NATL BANK OF PAKISTAN BRANCH	NEW YORK	NATL BANK OF PAKISTAN
NATL WESTMINSTER BANK BRANCH	NEW YORK	NATL WESTMINSTER BANK
ALGEMENE BK NEDERLAND BRANCH	NEW YORK	ALGEMENE BK NEDERLAND
PHILIPPINE NATL BANK BRANCH	NEW YORK	PHILIPPINE NATL BANK
STATE BANK OF INDIA BRANCH	NEW YORK	STATE BANK OF INDIA
SWISS BANK CORP BRANCH	NEW YORK	SWISS BANK CORP
SWISS CREDIT BANK BRANCH	NEW YORK	SWISS CREDIT BANK
UNION BANK OF BAVARIA	NEW YORK	UNION BK OF BAVARIA
UNION BK OF SWITZERLAND	NEW YORK	UNION BK OF SWITZ
WESTDEUTSCHE LANDESBANK	NEW YORK	WESTDEUTSCHE LANDESBK
BANK OF NOVA SCOTIA BRANCH	SAN JUAN	BANK OF NOVA SCOTIA
ROYAL BANK OF CANADA BRANCH	SAN JUAN	ROYAL BANK OF CANADA
BANK OF NOVA SCOTIA	CHRISTENSTED	BANK OF NOVA SCOTIA
BARCLAYS BANK INTL BRANCH	CHARLOTTE AMALIE	BARCLAYS GROUP
ROYAL BANK OF CANADA BRANCH	CHRISTENSTED	ROYAL BANK OF CANADA
ALGEMENE BANK NEDERLAND N.V.	CHICAGO	ALGEMENE BK NEDERLAND

INSTITUTE CODE

02 BRANCHES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BANCA COMMERCIALE ITALIANA	CHICAGO	BANCA COMM ITALIANA
BANK LEUMI LE-ISRAEL	CHICAGO	BANK LEUMI LE-ISRAEL
BARCLAYS BANK INTNL LTD	CHICAGO	BARCLAYS GROUP
BANQUE NATIONALE DE PARIS	CHICAGO	BANQUE NATLE DE PARIS
BANQUE DE L'INDOCHINE	CHICAGO	COMP FIN DE SUEZ
THE CHARTERED BANK	CHICAGO	STAND-CHARTERED GROUP
COMMERZBANK AKT	CHICAGO	COMMERZBANK AKT
CREDIT LYONNAIS	CHICAGO	CREDIT LYONNAIS
DRESDNER BANK	CHICAGO	DRESDNER BANK
EUROPEAN BANKING CO LTD	CHICAGO	EUROPEAN-AMER 'GROUP'
HONGKONG & SHANGHAI BK BRANC	CHICAGO	HONGKONG AND SHANGHAI
KOREA EXCHANGE BANK BRANCH	CHICAGO	KOREA EXCHANGE BANK
INTL COMM BK OF CHINA BRANCH	CHICAGO	INTL COMM BK OF CHINA
LLOYDS BK INTL LTD	CHICAGO	LLOYDS-INTL BK
NATIONAL BK OF GREECE S.A.	CHICAGO	NATL BK OF GREECE
NATIONAL WESTMINSTER BK LTD	CHICAGO	NATL WESTMINSTER BANK
THE SANWA BK LTD CHGO OFC	CHICAGO	SANWA BANK
THE SUMITOMO BK LTD	CHICAGO	SUMITOMO BANK
SWISS BANK CORPORTION	CHICAGO	SWISS BANK CORP
UNION BANK OF BAVARIA	CHICAGO	UNION BK OF BAVARIA
BANK OF TOKYO LTD BRANCH	PORTLAND	BANK OF TOKYO
CANAD IMPL BK OF COMM BRANCH	PORTLAND	CANAD IMPL BK OF COMM
BANK OF TOKYO LTD BRANCH	SEATTLE	BANK OF TOKYO
CANAD IMPL BK OF COMM BRANCH	SEATTLE	CANAD IMPL BK OF COMM
"THE CHARTERED BK", LONDON	SEATTLE	STAND-CHARTERED GROUP
HONGKONG & SHANGHAI BKG CORP	SEATTLE	HONGKONG AND SHANGHAI
TAIYO KOBE BANK LTD	SEATTLE	TAIYO KOBE BANK

INSTITUTE CODE

03 BANKING SUBSIDIARIES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
REPUBLIC NATL BANK OF NY	NEW YORK	TRADE DEVELOPMENT BK
AMERICAN BANK AND TRUST CO	NEW YORK	CONTINENTAL TRADE BK
ATLANTIC BANK OF NEW YORK	NEW YORK	NATL BK OF GREECE
BANK LEUMI LE-ISRAEL	NEW YORK	BANK LEUMI LE-ISRAEL
BANK OF MONTREAL TRUST CO	NEW YORK	BANK OF MONTREAL
BANK OF NOVA SCOTIA TRUST CO	NEW YORK	BANK OF NOVA SCOTIA
BANK OF TOKYO TRUST CO	NEW YORK	BANK OF TOKYO
BARCLAYS BANK OF NEW YORK	NEW YORK	BARCLAYS GROUP
CANAD BK OF COMM TRUST CO	NEW YORK	CANAD IMPL BK OF COMM
EUROPEAN-AMERICAN B AND T CO	NEW YORK	EUROPEAN-AMER 'GROUP'
FUJI BANK & TRUST CO	NEW YORK	FUJI BANK
INDUSTRIAL BANK OF JAPAN	NEW YORK	INDUST BK OF JAPAN
ISRAEL DISCOUNT BANK	NEW YORK	ISRAEL DISCOUNT BK
ROYAL BK OF CANADA TRUST CO	NEW YORK	ROYAL BANK OF CANADA
SCHRODER TRUST CO	NEW YORK	SCHRODER GROUP
TORONTO-DOMINION B AND T CO	NEW YORK	TORONTO DOMINION BANK
BANCO DI ROMA	CHICAGO	BANCO DI ROMA
FIRST PACIFIC BK OF CHICAGO	CHICAGO	DAI-ICHI KANGYO BANK
KOREA EXCHANGE BK OF CALIF	LOS ANGELES	KOREA EXCHANGE BANK
LLOYDS BK OF CALIF	LOS ANGELES	LLOYDS-INTL BK
MITSUBISHI BANK OF CALIF	LOS ANGELES	MITSUBISHI BANK
MITSUI BK OF CALIFORNIA	LOS ANGELES	MITSUI BANK
TOKAI BK OF CALIFORNIA	LOS ANGELES	TOKAI BANK
BANK OF MONTREAL-CALIFORNIA	SAN FRANCISCO	BANK OF MONTREAL
BANK OF TOKYO OF CALIFORNIA	SAN FRANCISCO	BANK OF TOKYO
BARCLAYS BANK OF CALIFORNIA	SAN FRANCISCO	BARCLAYS GROUP
CALIFORNIA CANADIAN BANK	SAN FRANCISCO	CANAD IMPL BK OF COMM
CHARTERED BK OF LONDON-CALIF	SAN FRANCISCO	STAND-CHARTERED GROUP
FRENCH BANK OF CALIFORNIA	SAN FRANCISCO	BANQUE NATLE DE PARIS
HONGKONG BK OF CALIFORNIA	SAN FRANCISCO	HONGKONG AND SHANGHAI
SANWA BANK OF CALIFORNIA	SAN FRANCISCO	SANWA BANK
SUMITOMO BANK OF CALIFORNIA	SAN FRANCISCO	SUMITOMO BANK
TORONTO DOMINION BK OF CALIF	SAN FRANCISCO	TORONTO DOMINION BANK

Table 16b
Foreign Banking Institutions in the United States
listed by Country of Parent Bank, as of September 1975

PARENT COUNTRY / PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
FRANCE			
BANQUE NATLE DE PARIS	05	FRENCH-AMERICAN BKG CORP	NEW YORK
	02	BANQUE NATIONALE DE PARIS	CHICAGO
	01	BANQUE NATLE DE PARIS AGENCY	SAN FRANCISCO
	03	FRENCH BANK OF CALIFORNIA	SAN FRANCISCO
CREDIT LYONNAIS	02	CREDIT LYONNAIS BRANCH	NEW YORK
	02	CREDIT LYONNAIS	CHICAGO
	01	CREDIT LYONNAIS PARIS	LOS ANGELES
COMP FIN DE SUEZ	02	CREDIT INDUSTRIEL ET COMML	NEW YORK
	02	BANQUE DE L'INDOCHINE	CHICAGO
GERMANY, FEDERAL REPUBLIC OF			
COMMERZBANK AKT	02	COMMERZBANK AKT BRANCH	NEW YORK
	02	COMMERZBANK AKT	CHICAGO
DRESDNER BANK	02	DRESDNER BANK BRANCH	NEW YORK
	02	DRESDNER BANK	CHICAGO
	01	DRESDNER BK AG FRANKFORT	LOS ANGELES
UNION BK OF BAVARIA	02	UNION BANK OF BAVARIA	NEW YORK
	02	UNION BANK OF BAVARIA	CHICAGO
WESTDEUTSCHE LANDESBK	02	WESTDEUTSCHE LANDESBANK	NEW YORK
GREECE			
NATL BK OF GREECE	03	ATLANTIC BANK OF NEW YORK	NEW YORK
	02	NATIONAL BK OF GREECE S.A.	CHICAGO
ITALY			
BANCA COMM ITALIANA	02	BANCA COMM ITALIANA BRANCH	NEW YORK
	02	BANCA COMMERCIALE ITALIANA	CHICAGO
	01	BANCA COMMERCIALE ITALIANA	LOS ANGELES
BANCA NAZLE DELLAVORO	02	BANCA NAZLE DEL LAVORO BRANC	NEW YORK
BANCO DI NAPOLI	01	BANCO DI NAPOLI AGENCY	NEW YORK
BANCO DI ROMA	02	BANCO DI ROMA	NEW YORK
	03	BANCO DI ROMA	CHICAGO
	01	BANCO DI ROMA AGENCY	SAN FRANCISCO
CREDITO ITALIANO	02	CREDITO ITALIANO	NEW YORK
NETHERLANDS			
ALGEMENE BK NEDERLAND	02	ALGEMENE BK NEDERLAND BRANCH	NEW YORK

*Institution codes:
01 agencies
02 branches
03 subsidiary commercial banks
05 New York State investment companies

PARENT COUNTRY

PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
NETHERLANDS			
ALGEMENE BK NEDERLAND	02	ALGEMENE BANK NEDERLAND N.V.	CHICAGO
	01	ALGEMENE BK NEDERLAND	LOS ANGELES
SPAIN			
BANCO URQUIJO	01	BANCO URQUIJO	NEW YORK
BANCO DE BILBAO	01	BANCO DE BILBAO	NEW YORK
SWEDEN			
SVENSKAHANDELSBANKEN	05	NORDIC AMERICAN BANKING CORP	NEW YORK
SWITZERLAND			
CONTINENTAL TRADE BK	03	AMERICAN BANK AND TRUST CO	NEW YORK
TRADE DEVELOPMENT BK	03	REPUBLIC NATL BANK OF NY	NEW YORK
SWISS BANK CORP	02	SWISS BANK CORP BRANCH	NEW YORK
	02	SWISS BANK CORPORTION	CHICAGO
	01	SWISS BANK CORP AGENCY	SAN FRANCISCO
SWISS CREDIT BANK	02	SWISS CREDIT BANK BRANCH	NEW YORK
	01	SWISS CREDIT BANK AGENCY	LOS ANGELES
UNION BK OF SWITZ	02	UNION BK OF SWITZERLAND	NEW YORK
UNITED KINGDOM			
BARCLAYS GROUP	02	BARCLAYS BANK INTNL	BOSTON
	02	BARCLAYS BANK INTL BRANCH	NEW YORK
	03	BARCLAYS BANK OF NEW YORK	NEW YORK
	02	BARCLAYS BANK INTL BRANCH	CHARLOTTE AMALIE
	02	BARCLAYS BANK INTNL LTD	CHICAGO
	01	BARCLAYS BANK INTL AGENCY	SAN FRANCISCO
	03	BARCLAYS BANK OF CALIFORNIA	SAN FRANCISCO
STAND-CHARTERED GROUP	01	STANDARD BANK LTD AGENCY	NEW YORK
	02	CHARTD BANK OF LONDON BRANCH	NEW YORK
	02	THE CHARTERED BANK	CHICAGO
	01	CHARTD ANK OF LONDON AGENCY	SAN FRANCISCO
	03	CHARTERED BK OF LONDON-CALIF	SAN FRANCISCO
	02	"THE CHARTERED BK", LONDON	SEATTLE
SCHRODER GROUP	05	J HENRY SCHRODER BKG CORP	NEW YORK
	03	SCHRODER TRUST CO	NEW YORK
LLOYDS-INTL BK	02	LLOYDS BK INTL LTD	NEW YORK

PARENT COUNTRY

PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
UNITED KINGDOM			
LLOYDS-INTL BK	02	LLOYDS BK INTL LTD	CHICAGO
	03	LLOYDS BK OF CALIF	LOS ANGELES
NATL WESTMINSTER BANK	02	NATL WESTMINSTER BANK BRANCH	NEW YORK
	02	NATIONAL WESTMINSTER BK LTD	CHICAGO
	01	NATL WESTMINSTER BANK AGENCY	SAN FRANCISCO
THOS COOK AND SON	01	THOS COOK AND SON AGENCY	NEW YORK
OTHER WESTERN EUROPE			
EUROPEAN-AMER 'GROUP'	05	EUROPEAN-AMERICAN BKG CORP	NEW YORK
	03	EUROPEAN-AMERICAN B AND T CO	NEW YORK
	02	EUROPEAN BANKING CO LTD	CHICAGO
	01	EURO-AM BANKING CORP AGENCY	LOS ANGELES
	01	EUROPEAN-AMERICAN BKNG CORP	SAN FRANCISCO
CANADA			
BANK OF MONTREAL	01	BANK OF MONTREAL AGENCY	NEW YORK
	03	BANK OF MONTREAL TRUST CO	NEW YORK
	01	BANK OF MONTREAL AGENCY	SAN FRANCISCO
	03	BANK OF MONTREAL-CALIFORNIA	SAN FRANCISCO
BANK OF NOVA SCOTIA	01	BANK OF NOVA SCOTIA AGENCY	NEW YORK
	03	BANK OF NOVA SCOTIA TRUST CO	NEW YORK
	02	BANK OF NOVA SCOTIA BRANCH	SAN JUAN
	02	BANK OF NOVA SCOTIA	CHRISTENSTED
	01	BANK OF NOVA SCOTIA AGENCY	SAN FRANCISCO
CANAD IMPL BK OF COMM	01	CANAD IMPL BK OF COMM AGENCY	NEW YORK
	03	CANAD BK OF COMM TRUST CO	NEW YORK
	01	CANAD IMPL BK OF COMM AGENCY	SAN FRANCISCO
	03	CALIFORNIA CANADIAN BANK	SAN FRANCISCO
	02	CANAD IMPL BK OF COMM BRANCH	PORTLAND
	02	CANAD IMPL BK OF COMM BRANCH	SEATTLE
ROYAL BANK OF CANADA	01	ROYAL BANK OF CANADA AGENCY	NEW YORK
	03	ROYAL BK OF CANADA TRUST CO	NEW YORK
	02	ROYAL BANK OF CANADA BRANCH	SAN JUAN
	02	ROYAL BANK OF CANADA BRANCH	CHRISTENSTED
	01	ROYAL BANK OF CANADA AGENCY	SAN FRANCISCO
TORONTO DOMINION BANK	01	TORONTO-DOMINION BANK AGENCY	NEW YORK
	03	TORONTO-DOMINION B AND T CO	NEW YORK
	01	TORONTO DOMINION BANK AGENCY	SAN FRANCISCO
	03	TORONTO DOMINION BK OF CALIF	SAN FRANCISCO
BANK OF BRIT COLUM	01	BANK OF BRITISH COLUMBIA	SAN FRANCISCO

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
ARGENTINA				
	BANCO DE LA NACION	02	BANCO DE LA NACION	NEW YORK
BRAZIL				
	BANCO DO BRASIL	02	BANCO DO BRASIL BRANCH	NEW YORK
		01	BANCO DO BRASIL S A	SAN FRANCISCO
		01	BANCO DO BRASIL	LOS ANGELES
	BANCO REAL	02	BANCO REAL BRANCH	NEW YORK
		01	BANCO REAL	LOS ANGELES
	ESTADO DE SAO PAULO	01	BANCO DO ESTADO DE SAO PAULO	NEW YORK
	MERCANTL DE SAO PAULO	01	BANCO MERCANTIL DE SAO PAULO	NEW YORK
COLOMBIA				
	BANCO DE BOGATA	02	BANCO DE BOGATA	NEW YORK
MEXICO				
	BANCO NACL DE MEXICO	01	BANCO NACL DE MEXICO AGENCY	NEW YORK
		01	BANCO NATL DE MEXICO	LOS ANGELES
	BANCO DE COMMERCIO	01	BANCO DE COMMERCIO	LOS ANGELES
HONG KONG				
	HONGKONG AND SHANGHAI	02	HONGKONG & SHANGHAI BK BRANC	NEW YORK
		02	HONGKONG & SHANGHAI BK BRANC	CHICAGO
		01	HONGKONG & SHANGHAI BK AGENC	SAN FRANCISCO
		03	HONGKONG BK OF CALIFORNIA	SAN FRANCISCO
		02	HONGKONG & SHANGHAI BKG CORP	SEATTLE
	SHANGHAI COMM BANK	01	SHANGHAI COMMERCIAL BANK LTD	SAN FRANCISCO
INDIA				
	STATE BANK OF INDIA	02	STATE BANK OF INDIA BRANCH	NEW YORK
IRAN				
	BANK MELLI IRAN	01	BANK MELLI IRAN AGENCY	NEW YORK
	BANK SADERAT IRAN	01	BANK SADERAT IRAN AGENCY	NEW YORK

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
IRAN				
ISRAEL				
	BANK LEUMI LE-ISRAEL	01	BANK LEUMI LE-ISRAEL	NEW YORK
		03	BANK LEUMI LE-ISRAEL	NEW YORK
		02	BANK LEUMI LE-ISRAEL	CHICAGO
	ISRAEL DISCOUNT BK	02	ISRAEL DISCOUNT BANK	NEW YORK
		03	ISRAEL DISCOUNT BANK	NEW YORK
	BANK HAPOALIM	02	BANK HAPOALIM, B. M.	NEW YORK
JAPAN				
	TAIYO KOBE BANK	01	TAIYO KOBE LTD AGENCY	NEW YORK
		01	TAIYO KOBE AGENCY	LOS ANGELES
		02	TAIYO KOBE BANK LTD	SEATTLE
	BANK OF TOKYO	01	BANK OF TOKYO LTD AGENCY	NEW YORK
		03	BANK OF TOKYO TRUST CO	NEW YORK
		01	BANK OF TOKYO AGENCY	LOS ANGELES
		01	BANK OF TOKYO AGENCY	SAN FRANCISCO
		03	BANK OF TOKYO OF CALIFORNIA	SAN FRANCISCO
		02	BANK OF TOKYO LTD BRANCH	PORTLAND
		02	BANK OF TOKYO LTD BRANCH	SEATTLE
	DAI-ICHI KANGYO BANK	01	DAI- CHI KANGYO ANK AGENCY	NEW YORK
		03	FIRST PACIFI BK OF CHICAGO	CHICAGO
		01	DAI-ICHI KANGYO BANK AGENCY	LOS ANGELES
	DAIWA BANK	01	DAIWA BANK LTD AGENCY	NEW YORK
		01	DAIWA BANK AGENCY	LOS ANGELES
	FUJI BANK	01	FUJI BANK LTD AGENCY	NEW YORK
		03	FUJI BANK & TRUST CO	NEW YORK
		01	FUJI BANK AGENCY	LOS ANGELES
	HOKKAIDO TAKUSHOKU	01	HOKKAIDO TAKUSHOKU BANK LTD.	NEW YORK
		01	HOKKAIDO AKUSHOKU	LOS ANGELES
	INDUST BK OF JAPAN	01	INDUSTRIAL BANK OF JAPAN LTD	NEW YORK
		03	INDUSTRIAL BANK OF JAPAN	NEW YORK
		01	THE INDUSTRIAL BK JAPAN LTD	LOS ANGELES
	MITSUBISHI BANK	01	MITSUBISHI BANK LTD AGENCY	NEW YORK
		01	MITSUBISHI BANK LTD AGENCY	LOS ANGELES
		03	MITSUBISHI BANK OF CALIF	LOS ANGELES
	MITSUI BANK	01	MITSUI BANK LTD AGENCY	NEW YORK
		01	MITSUI BANK LTD AGENCY	LOS ANGELES
		03	MITSUI BK OF CALIFORNIA	LOS ANGELES
	SANWA BANK	01	SANWA BANK LTD AGENCY	NEW YORK
		02	THE SANWA BK LTD CHGO OFC	CHICAGO

PARENT COUNTRY / PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
JAPAN			
SANWA BANK	01	SANWA BANK LTD AGENCY	SAN FRANCISCO
	03	SANWA BANK OF CALIFORNIA	SAN FRANCISCO
SUMITOMO BANK	01	SUMITOMO BANK LTD AGENCY	NEW YORK
	02	THE SUMITOMO BK LTD	CHICAGO
	01	SUMITOMO BANK LTD AGENCY	SAN FRANCISCO
	03	SUMITOMO BANK OF CALIFORNIA	SAN FRANCISCO
SAITAMA BANK	01	THE SAITAMA BANK LTD.	NEW YORK
	01	SAITAMA BANK	LOS ANGELES
TOKAI BANK	01	TOKAI BANK TD AGENCY	NEW YORK
	01	TOKAI BANK AGENCY	LOS ANGELES
	03	TOKAI BK OF CALIFORNIA	LOS ANGELES
KYOWA BANK	01	KYOWA BANK	NEW YORK
	01	KYOWA BANK AGENCY	LOS ANGELES
LONG TERM CREDIT	02	LONG-TERM CREDIT BK OF JAPAN	NEW YORK
MITSUBISHI TR & BKNG	01	MITSUBISHI TR & BNKG CORP	NEW YORK
MITSUI TR & BKNG CO.	01	THE MITSUI TR & BKNG CO LTD	NEW YORK
KOREA, SOUTH			
KOREA EXCHANGE BANK	01	KOREA EXCHANGE BANK AGENCY	NEW YORK
	02	KOREA EXCHANGE BANK BRANCH	CHICAGO
	01	KOREA EXCHANGE BANK AGENCY	LOS ANGELES
	03	KOREA EXCHANGE BK OF CALIF	LOS ANGELES
PAKISTAN			
HABIB BANK	02	HABIB BANK BRANCH	NEW YORK
NATL BANK OF PAKISTAN	02	NATL BANK OF PAKISTAN BRANCH	NEW YORK
PHILIPPINES			
PHILIPPINE NATL BANK	02	PHILIPPINE NATL BANK BRANCH	NEW YORK
	01	PHILIPPINE NATL BK AGENCY	SAN FRANCISCO
	01	PHILIPPINE NATL BK AGENCY	HONOLULU
SINGAPORE			
OVERSEAS UNION	01	OVERSEAS UNION BANK, LTD	NEW YORK

PARENT COUNTRY

PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
CHINA, REPUBLIC OF TAIWAN			
INTL COMM BK OF CHINA	01	INTL COMM BK OF CHINA AGENCY	NEW YORK
	02	INTL COMM BK OF CHINA BRANCH	CHICAGO
THAILAND			
BANGKOK BANK LTD	01	BANGKOK BANK LTD AGENCY	NEW YORK

TABLE 17

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE

(SEPTEMBER, 1975)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Algemene Bank Nederland	NY Ill.	Cal.		Banque Nationale de Paris	Ill.	Cal.	Cal.-French Bank of Cal. (1) NY-Investment Co.-French American Banking Corporation
Banca Commerciale Italiana	NY Ill.	Cal.		Barclay's Group	NY(2) Ill. MA,VI	Cal.	NY-Barclays Bank of NY (24) Cal.-Barclays Bank of Cal. (37)
Banco di Roma	NY	Cal.	Ill.-Banco di Roma (Chicago)	Canadian Imperial Bank of Commerce	Ore. Wash.	NY Cal.	NY-Canadian Bank of Commerce Trust Company Cal.-California Canadian Bank (19)
Banco do Brasil	NY	Cal. (2)		Commerzbank	NY Ill.		
Banco Nacional de Mexico		NY Cal.		Compagnie Financiere de Suez	NY Ill.		
Banco Real	NY	Cal.		Credit Lyonnais	NY Ill.	Cal.	
Bank Leumi le-Israel	Ill.	NY	NY-Bank Leumi le-Israel	Dai-Ichi Kangyo Bank		NY Cal.	Ill.-First Pacific Bank of Chicago
Bank of Montreal		NY Cal.	NY-Bank of Montreal Trust Co. Cal.-Bank of Montreal (Calif.) (4)	Daiwa Bank		NY Cal.	
Bank of Nova Scotia	PR(3) VI(5)	NY Cal.	NY-Bank of Nova Scotia Trust Company of New York	Dresdner	NY Ill.	Cal.	
Bank of Tokyo	Ore. Wash.	NY Cal. (2)	NY-Bank of Tokyo Trust Co. (4) Cal.-Bank of Tokyo of Cal. (22)	European-American Group	Ill.	Cal. (2)	NY-European-Amer. Bank & Trust Co. (106), Investment Co-European-Amer. Banking Corp.

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Fuji Bank		NY Cal.	NY-Fuji Bank and Trust Company	National Bank of Greece	Ill.		NY-Atlantic Bank of New York (2)
Hokkaido Takushoku Bank		NY Cal.		National Westminster Bank	NY Ill.	Cal.	
HongKong and Shanghai Banking Corporation	NY Ill. Wash.	Cal.	Cal.-HongKong Bank of Cal. (9)	Philippine National Bank	NY	Cal. Ha.	
Industrial Bank of Japan		NY Cal.	NY-Industrial Bank of Japan Trust Company	Royal Bank of Canada	PR(5) VI	NY Cal.	NY-Royal Bank of Canada Trust Co.
International Commercial Bank of China	Ill.	NY		Saitama Bank		NY Cal.	
Korea Exchange Bank	Ill.	NY Cal.	Cal.-Korea Exchange Bank of California	Sanwa Bank	Ill.	NY Cal.	Cal.-Sanwa Bank of California (4)
Kyowa Bank		NY Cal.		Standard and Chartered Banking Group Limited	Ill. NY(2) Wash.	NY Cal.	Cal.-Chartered Bank of London (14)
Lloyds Bank Limited	NY Ill.		Cal.-Lloyds Bank California (94)	Sumitomo Bank	Ill.	NY Cal.	Cal.-Sumitomo Bank of California (19)
Mitsubishi Bank		NY Cal.	Cal.-Mitsubishi Bank of California (3)	Swiss Bank Corporation	NY(2) Ill.	Cal.	
Mitsui Bank		NY Cal.	Cal.-Mitsui Bank of Calif.	Swiss Credit Bank	NY	Cal.	

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Taiyo Kobe Bank	Wash.	NY Cal.					
Tokai Bank		NY Cal.	Cal.-Tokai Bank of California				
Toronto Dominion Bank		NY Cal.	NY-Toronto Dominion Bank Trust Co.; Cal.-Toronto Dominion Bank of California (2)				
Union Bank of Bavaria	NY Ill.						

TABLE 18

FOREIGN CONTROLLED U.S. SECURITIES COMPANIES AFFILIATED WITH

FOREIGN BANKS OPERATING BANKING OFFICES IN THE U.S.*

Securities Company	Capital 1/	Rank by Capital Position	Affiliated Bank(s)
ABD Securities Corporation	$ 6,400,747	99	Algemene Bank Nederland, Amsterdam; Dresdner Bank, Frankfurt
Basle Securities Corporation			Swiss Bank Corporation
Daiwa Securities Company America, Inc.	3,000,000	152	Daiwa Bank, Tokyo
Europartners Securities Corporation	5,856,472	111	Banco di Roma, Rome; Commerzbank, Frankfurt; Credit Lyonnais, Paris
RWS Securities Services			Westdeutsche Landesbank Gironzentrale
SoGen Swiss International Corporation	13,456,760	49	Amsterdam-Rotterdam Bank N.V.; Societe Generale, Paris; Societe Generale de Banque S.A., Brussels 2/
Suez American	1,343,888	222	Compagnie Financiere de Suez
Swiss American Securities, Inc.			Swiss Credit Bank
UBS-DB Corporation	7,663,838	81	Deutsche Bank, Frankfurt; Union Bank of Switzerland
Yamaichi International (America) Inc.	2,430,838	165	Fuji Bank of Japan; Industrial Bank of Japan; Mitsubishi Bank 3/

*List does not include U.S. controlled securities companies in which foreign banks own a minority of the shares. It is noted, however, that some foreign banks have obtained a minority interest in large U.S. securities companies that are members of the New York Stock Exchange (stock exchange rules prohibit foreign control). For example, Credit Suisse and Banca Commerciale Italiana have acquired minority interests in, respectively, White, Weld & Co., and Shields Model Roland, Inc.

1/ Source, Finance Magazine, July, 1975. Includes both equity capital and subordinated liabilities.

2/ Stockholders of European American Bank and Trust Company, New York, New York.

3/ The three Japanese banks have agreed pursuant to section 4(a)(2) of the Bank Holding Company Act, 12 U.S.C. 1843(a)(2), to reduce their ownership of Yamaichi Securities Co., Ltd., Tokyo, Japan, parent of Yamaichi International (America) Inc., to not more than 5 per cent.

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 7, 1976

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As requested in your letter of March 25, I am pleased to enclose responses to questions that you asked in connection with the hearing on S. 958, the Foreign Bank Act of 1975, which was held on January 28. I am also enclosing a response to the legislative scenario which you requested at the conclusion of the hearing.

I hope this information will be helpful to you and your Subcommittee.

Sincerely yours,

Arthur F. Burns

Enclosures

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Question No. 1

If Congress determines that there is a need for Federal legislation regarding foreign banking in the United States, then the question becomes one of timing. At the present time, there are developments proceeding in the Banking Committee on at least three different fronts which bear directly on the proposed foreign banking legislation. These include a review of the Glass-Steagall Act and its implications on the mix between commercial banking and investment banking, a study of Federal branching policy and the McFadden Act, and perhaps most relevant of all, the very active debates now being waged in both Houses of Congress on Federal financial regulatory restructuring. Inasmuch as S. 958 cuts across all three of these issues, it has been suggested that there is no overriding need to consider S. 958 prior to a resolution of these other issues. Would you please comment?

ANSWER: In his testimony of January 28, 1976, before the Subcommittee on S. 958, Governor Mitchell stated the Board's belief that the enactment of legislation regulating foreign bank operations in the United States should not await or be made contingent upon the resolution of more fundamental domestic banking issues, such as whether U.S. banks should be allowed to engage in multi-State operations or securities activities. In the Board's judgment, if foreign bank regulation is tied to such fundamental domestic changes, an undesirable end result will be the further postponement of the enactment of any legislation regulating foreign bank operations in the United States since the development of a legislative consensus on such significant domestic issues has, historically, been extremely difficult. The longer such legislation is delayed, the more difficult will be our task in this regard, since foreign bank operations will continue to grow and competitive and regulatory advantages will increase, thus making grandfathering proposals less acceptable and increasing the likelihood of retaliatory pressures against our banks abroad. The Board thus strongly recommends enactment of S. 958 during 1976.

It should be emphasized that any McFadden, Glass-Steagall or structural revisions that might be enacted by Congress as a result of present studies pose no problems under S. 958, since, by subjecting foreign banks to the existing regulatory structure, S. 958 ensures that any changes that might be mad: in these areas would automatically apply to foreign banks.

Question No. 2

I presume you are aware of the concerns which have been expressed by former FDIC Chairman Wille over the potential risk to the FDIC in insuring affiliates of foreign banks without having a sufficient regulatory handle over the parent. Would you please respond to Chairman Wille's concerns? Is it possible, for example, to decide the issue of FDIC insurance on the basis of the type of banking business being considered? Could we, perhaps, differentiate between "retail" and "wholesale" banking with regard to the need or appropriateness of insurance?

ANSWER: Summary of FDIC Views. Former FDIC Chairman Wille presented the FDIC's views on S. 958 in a written statement dated January 28, 1976 that was submitted to the Subcommittee. Essentially, the FDIC appears to support the S. 958's "national treatment" objective of establishing parity of regulatory treatment between the domestic operations of foreign banks and those of domestic banking organizations. The FDIC believes, however, that compulsory FDIC insurance and compulsory Federal Reserve membership for agencies, branches and subsidiaries of foreign banks with worldwide assets in excess of $500 million would be inconsistent with the principle of national treatment. Moreover, the FDIC expressed serious reservations about the necessity and desirability of making FDIC insurance available, even on an optional basis, for U.S. branches and agencies of foreign banks because in its judgment there would be no certain way of containing what it believes to be substantial risks to the FDIC fund that could result from the failure of a foreign bank with branches and agencies in the United States. In partiuclar, the FDIC is of the opinion that FDIC insurance is inapposite to the essentially wholesale international operations of branches and agencies, and is concerned that the non-incorporated status of such entities could pose serious legal and other obstacles to effective supervision of their

operations and to the marshalling of assets in the case of insolvency. The FDIC concludes that, as now, FDIC insurance and Federal Reserve membership should continue to be made optional and that FDIC insurance should only be made available to separately incorporated U.S. subsidiaries. The FDIC does indicate its specific support, however, for subjecting foreign banks to the restrictions of the Bank Holding Company Act, and for those provisions of the bill that facilitate foreign bank ownership of Edge Act Corporations and national banks.

Response to FDIC Views. In commenting on the FDIC's position on insurance for branches and agencies of foreign banks, it would seem best to elaborate first on why it is made compulsory under the Board's foreign bank legislation.

There are three operative provisions in the Board's proposal that make FDIC insurance mandatory for branches and agencies:

(1) Sections 2(4) and (6) of S. 958 would define a branch and agency of a foreign bank to be a "bank subsidiary of a bank holding company; as a result, each such branch and agency as a "subsidiary bank" of a bank holding company would be required to become and remain an "insured" bank by section 3(e) of the Bank Holding Company Act of 1956, as amended ("BHCA");

(2) Section 3(f) of the Board's proposal requires each branch, agency and subsidiary bank of a foreign bank with world-wide bank assets in excess of $500 million to become and remain a member bank; as a result each such branch and agency as a State member bank would have to become an insured bank since under section 4 of the FDIC Act (12 U.S.C. 1814) <u>every</u> State bank that becomes a member of the Federal Reserve System and which is engaged in the business of receiving deposits, shall be an insured bank from the time it becomes a member of the System; and

(3) Section 6(1) of the Board's proposal would amend the Federal Reserve Act to require <u>federal</u> branches of foreign banks established pursuant to section 18 of the Board's proposal to become insured banks.

It is thus clear that, consistent with the principle of national treatment, the Board has not proposed a special mandatory insurance requirement for branches and agencies of foreign banks; rather, branches and agencies are merely automatically subjected to the same mandatory insurance requirement that applies to <u>all subsidiary banks of bank holding companies</u> and <u>all member banks</u>.

Since under the present provisions of the FDIC Act agencies and branches of foreign banks cannot become insured banks, the Board proposed in section 17 of S. 958 that within ninety days after the enactment of the legislation embodied in S. 958, the FDIC submit to the Congress a proposal for implementing the existing provisions of the FDIC Act to include both branches and agencies of foreign banks. From a policy standpoint, the Board recommended this provision because it believed that the principle of national treatment requires that foreign banks be given, at least, the option of obtaining insurance for all of their various forms of organization in the United States. From a regulatory standpoint, the Board realized that foreign bank branches and agencies, as integral parts of foreign institutions, could present legal and other problems different from those encountered in the case of U.S. subsidiaries; therefore, it recommended that the FDIC be given the opportunity to present the type of proposal that it, as an insurer and receiver, felt would be necessary to insure deposits at these forms of organization.

The FDIC appears to have two specific objections to insurance for branches and agencies. First, the FDIC believes that because branches and agencies are primarily engaged in a wholesale banking business, insurance is not relevant or necessary to their operations. Second, the FDIC is concerned that the non-incorporated status of such offices could pose legal and practical obstacles to effective supervision of their operations and to the marshalling of assets in case of insolvency and that these factors pose substantial uncertain risks to the assets of the FDIC fund. For these reasons, the FDIC believes that insurance should only be made available for U.S.-incorporated banking subsidiaries of foreign banks.

In response to the FDIC's first point, if a large U.S. insured bank chooses to compete almost exclusively in wholesale banking markets e.g., Morgan Guaranty Trust Company, it must nevertheless pay FDIC assessments on its deposit liabilities even though they may be of an overwhelmingly wholesale nature. Agencies and branches, of course, do not have to pay similar assessments on their liabilities and thus may have a cost advantage over their U.S. competitors in this regard.

Based on some very rough estimates compiled by the Board's staff, it would appear that FDIC assessments would not have a significant effect on agencies' costs of funds, and thus the absence of FDIC assessments may not give them a significant competitive advantage. For example, it is estimated that if FDIC assessments were made on the credit balance accounts maintained by agencies ($1.8 billion as of September 30, 1975) the aggregate additional cost would be only $790,000.

The figures for branches are, however, more significant, as if FDIC assessments were made on their deposit liabilities ($5.4 billion as of September 30, 1975), the aggregate cost increase would amount to approximately $2.15 million. In addition to such competitive considerations, however, many branches of foreign banks accept retail deposits, in particular from persons that have a strong ethnic identity with the bank, and it would seem in the public interest to protect retail depositors at all bank offices in this country. Indeed, it seems clear that this is already our national policy, since all subsidiary banks of bank holding companies and all national and State member banks must be FDIC insured banks.

The FDIC's second point highlights the need to ensure that only sound, well-managed foreign banks with extensive international experience be permitted to open branches and agencies in this country. Any such evaluation would have to take into account the position, standing and reputation of such bank in its home country, and, most importantly, the attitude of its home country banking authority toward the establishment of any U.S. office by such bank. It would appear that obtaining knowledge on these issues would best be accomplished at a national level.

As pointed out by the FDIC, the risks to the FDIC fund in the case of an insolvency situation must be thoroughly considered. On this issue, the FDIC carefully notes the problems that could occur if a foreign bank made a deliberate effort to move assets outside the United States; it would seem, however, that many of these same problems could similarly

occur in the case of a wholly-owned subsidiary of a foreign bank. To the extent that these risks can be dealt with through amendments to the FDIC Act, the regulatory or cost burdens that would be imposed by any particular amendment would have to be weighed against the additional protection it would bring. It would seem here that a middle ground could be reached whereby the FDIC's exposure could be reasonably limited and the requirements imposed on foreign banks would not be unreasonably burdensome.

Retail vs. Wholesale Deposits. From a public policy standpoint, insurance of, at least, retail deposits at branches of foreign banks would be a desirable feature of any foreign bank legislation since it would fulfill one of the principal purposes of federal banking legislation--protection of the individual and small business depositor. The problem would be one of devising a satisfactory definition of a retail deposit. It would seem that any such definition should first of all exclude deposits from the parent foreign bank or a branch and any affiliate thereof. Secondly, deposits made as incidental to a financing transaction, whether domestic or international, could also be excluded as essentially being commercial deposits. One might also wish to exclude deposits from foreign governments or businesses on the basis that such a customer looks directly to the home country resources of a branch's parent bank and not to its local U.S. assets. The problem with any such approach is that it really does not extend a branch national treatment, since we do not impose comparable limitations on the insurance of deposits at U.S. banks.

Other Alternatives. Recently other foreign bank proposals (see H.R. 12103, introduced by Congressman Thomas Rees of California)

have contained provisions that would require a branch to maintain a surety deposit with the FDIC, in lieu of insurance, to protect depositors. This seems a reasonable compromise position with the FDIC's views since the FDIC fund would not be subject to any liability and the FDIC would act as a custodian or stakeholder and not as an insurer of deposits.

<u>Question No. 3</u>

As for FDIC insurance, is there not a middle ground whereby foreign banks which <u>accept</u> deposits would be given the <u>option</u> of FDIC insurance, as is the case of U.S. banks?

<u>ANSWER</u>: As pointed out in the preceding answer to question number 2, <u>all member banks</u> and <u>all bank subsidiaries</u> of bank holding companies do not have the option of insurance; rather, federal law requires that they be insured. This group of banks required to be insured includes, without exception, this nation's largest banks which are the primary competitors of foreign banks in this country. <u>De facto</u> national treatment thus makes insurance mandatory for branches and agencies--the position recommended in S. 958. <u>De jure</u> national treatment would require, at the very least, that foreign banks be given the option of insurance, since this option is universally afforded to all other domestic banking institutions.

Question No. 4

Another obvious question concerns the use of the Bank Holding Company Act as a vehicle. It would seem to me that the Bank Holding Company Act was devised to deal with a specific structure of bank and nonbank activity and was not intended to provide the regulatory framework for the type of regulation being sought here. If we were to decide that there were sound public policy reasons for establishing a Federal presence over foreign banking operations, would we not be better advised to create them in a separate statute designed specifically for the purposes intended?

ANSWER: It should be noted at the outset that S. 958 does not seek to regulate foreign bank operations in the U.S. exclusively through the medium of the Bank Holding Company Act; rather, S. 958 amends all relevant federal banking laws--including the Federal Reserve Act, FDIC Act and Glass-Steagall Act--to include the branch, agency and subsidiary operations of foreign banks. The advantage of this approach--amending existing laws versus enacting a special statute--is that it ensures, to the greatest degree possible, that foreign banks and domestic banks will be given the same banking opportunities in the U.S. and subjected to the same laws and regulations. Moreover, the enactment of special "foreign bank" legislation is more susceptible both at the outset and over time to the inclusion of discriminatory and protectionist provisions.

Focussing on the particular usefulness, from a regulatory standpoint, of defining a branch and agency of a foreign bank as a "bank" under the Bank Holding Company Act, such a definition would accomplish the following: (1) no branch or agency, whether Federal or State, could be established without Board approval under the banking factors prescribed in § 3(c) of the Act; (2) each branch and agency would have to become an insured bank under § 3(e) of the Act; (3) branches

and agencies would be subjected to the multistate prohibitions of § 3(d) of the Act; (4) any foreign bank with a branch or agency would be subject to the nonbanking prohibitions of § 4 of the Act; (5) as a bank holding company, any foreign bank with a branch or agency would be subject to the examination and reporting requirements of the Act; and (6) any foreign bank with a branch or agency and any nonbank U.S. subsidiary thereof would be subject to the Board's cease-and-desist authority.

While it has been contended that treating a branch or agency as a subsidiary under the Bank Holding Company Act is a legal fiction, a close examination of existing State laws governing branches and agencies reveals that these offices are now legally and operationally treated as separate entities--they must keep separate books and records from their parent, deposit securities in lieu of capital, maintain U.S. assets in order to cover their U.S. liabilities, observe lending, usury and other limitations, and in New York, Illinois and Massachusetts, branches are given the same rights and privileges as State subsidiaries. (See attached copy of a staff memorandum on the legal framework of foreign bank operations in the U.S. which discusses the State law provisions in more detail.)

Essentially, Congress has over time developed a complex of federal laws designed to regulate the operations of U.S. banks. The provisions of these laws interact in many subtle but important ways--for example, approval over bank mergers and cease-and-desist authority are tied to FDIC insurance, while Glass-Steagall restrictions are tied to membership in the Federal Reserve System. By amending this existing framework to include foreign bank operations, we can best achieve the goal of national treatment.

Question No. 5

One provision in the Fed bill which would seem to be meritorious is the extension of the dual banking system to U.S. affiliates of foreign banks. At present, in the absence of a Federal chartering alternative, there really is no dual banking system as far as foreign banks are concerned. Yet, the question arises if a Federal chartering or licensing alternative were to be provided, should this be admin stered by the Federal Reserve or, to more closely parallel the U.S. banking structure, be administered by the Treasury, or, perhaps, the Comptroller of the Currency?

ANSWER: Under the Board's bill, the Comptroller of the Currency, as the chartering authority for national banks, would be given the discretion of allowing a foreign bank to organize a national bank subsidiary; however, he would have to consult with the Secretary of State, Secretary of Treasury and the Board before granting a charter (Section 13). In the Board's judgment, this provision seems a natural extension of the Comptroller's existing authority over national banks.

S. 958 (Section 10) would give the Board, as the chartering authority for Edge Corporations, the discretion of chartering an Edge Corporation for a foreign bank; however, the Board would have to consult with the Secretary of Treasury and Secretary of State before issuing any such charter. Again, this provision seems a natural and logical extension of the Board's existing authority.

Under Section 18 of S. 958, the Comptroller would be made the chartering authority for federal branches of U.S. banks, in large part because these branches would be given the same rights and powers and subjected to the same duties and restrictions as national banks; again, he would have to consult with the Secretary of State, Secretary of Treasury and the Board before issuing any such charter.

Lastly, under Section 25 of the Board's proposal, the Secretary of the Treasury would be responsible for licensing all federal and State foreign bank operations in the United States other than the chartering of national banks, Edge Corporations, and federal branches in which, as described above, he would have a consultative role. The Secretary would be required to consult with the Secretary of State, the Board and the Comptroller in acting on any application for a license. The Board has proposed this provision because it believes that the Secretary of the Treasury would be best suited for this overall licensing role since he would best be able to consider the full complex of financial, monetary and foreign policy factors that would be involved. His consultative interaction with the Board and Comptroller would, in addition, serve to assure the development of a uniform national policy on foreign bank entry in the United States.

In summary, the Board believes that the Secretary of the Treasury should be given the primary role on formulating guidelines concerning foreign bank entry into the U.S. in order to promote the development of a truly national policy in this regard; the Board and the Comptroller, however, should retain their traditional chartering discretion for Edge Corporations and national banks, respectively.

With respect to federal branches, it would seem that either the Board or the Comptroller could be the chartering authority. The principal reason for choosing the Comptroller would be his experience in administering the national bank laws. The principal advantage of choosing the Board is its substantial experience in dealing with foreign banking authorities in the conduct of both its monetary functions and its supervisory functions over U.S. banks abroad.

Question No. 6

In terms of unfair advantage, emphasis is placed on the securities affiliates of foreign banks which are not permitted to U.S. banks? Yet how do we put this in perspective? It has been suggested that the magnitude of the securities business of these affiliates is quite small in regard to the overall securities industry. What are the statistics in terms of the level of activity of these affiliates?

ANSWER: Currently, the U.S. securities affiliates of foreign banks (see Table 18 in the Appendix to Vice Chairman Mitchell's testimony of January 28, 1976) appear to engage primarily in buying and selling U.S. securities for foreign investors and advisory and management services related thereto.[1/] Many of these affiliates have also been increasing their underwriting participations in the U.S. principally in connection with the sale of foreign securities in the U.S.

It would seem that if U.S. securities affiliates of foreign banks continued to specialize in foreign-related transactions in U.S. securities, they would not gain significant competitive advantages over U. S. banks. (In this regard, it appears that U.S. banks have voiced few objections to these present activities.) One reason is that a securities affiliate that is providing brokerage and underwriting services for one of the customers of its parent foreign bank is merely extending a pre-existing banking and financing relationship to another country. Secondly, since U.S. banks may, through subsidiaries, engage in limited investment banking activities in certain foreign countries, any competitive

1/ The statistics included in Table 18 are, as indicated in the footnotes to the table, taken from secondary sources. See especially, "Foreign Firms on the Rebound", Finance Magazine, July, 1975 and "Why Foreigners Are Buying Into Wall Street Firms", Institutional Invester, December, 1974, copies of which are enclosed. Conclusions have also been drawn from the staff's examination of public responses filed with the Securities and Exchange Commission in response to their release No. 10634 on February 8, 1974 on the issue of foreign access to U.S. securities markets. The staff knows of no aggregate statistical summary that has been prepared by the SEC staff on the activities of foreign broker-dealers in the U.S.

advantage a foreign bank may have in offering its foreign customers commercial and investment banking services in the U.S. is balanced to a certain degree by the ability of U.S. banks to offer similar services to their U.S. customers abroad.

It would seem that significant unfair competitive advantages would be most likely to develop if the U.S. securities affiliates of foreign banks became significant competitors in the provision of brokerage and underwriting services to U.S. customers. In order for these affiliates to become significant competitors in the domestic market, it appears, however, that certain natural competitive and legal barriers must be overcome. First, the U.S. securities affiliates of foreign banks are currently not permitted to become members of the New York or American stock exchanges; this situation may change, however as Roderick Hills, Chairman of the Securities and Exchange Commission ("SEC"), recently indicated in a letter of December 4, 1975 to the New York Stock Exchange that the recent Securities Acts Amendments of 1975 "would not appear to permit the Commission to acquiesce in a denial of membership to a foreign-controlled or affiliated broker-dealer". Mr. Hills further indicated, however, that these issues would be more appropriately resolved in the context of a specific proceeding. Second, in order to become significant competitors in retail brokerage services, it would appear that these affiliates would have to embark on a program of aggressive *de novo* expansion in cities across the country. Given the well-established position of the largest U.S. securities firms in this market and the

difficulty of establishing name identification with the U.S. public, this does not seem likely. Third, in order to become significant competitors in the underwriting, distribution and sale of securities in the U.S. (the Glass-Steagall activities), these companies would have to demonstrate an ability to manage and put together U.S. underwriting syndicates--a difficult endeavor for a foreign-owned firm. In general, it would appear that, at least for the foreseeable future, securities firms affiliated with foreign banks would continue to focus their activities on foreign-related transactions, thus tending to minimize competitive advantages over U.S. banks.

The principal problem with devising limits on the future growth of the securities affiliates of foreign banks is finding an equitable formula that does not place these affiliates at a severe competitive disadvantage with U.S. securities firms. In this regard various types of limitations have been suggested. One type of limitation would go to "type" of activity--that is, limit these affiliates to conducting an international or foreign business. For example, such affiliates could only (1) perform brokerage services for foreign customers, (2) provide investment advice to foreign customers, and (3) underwrite abroad and participate in distributions of foreign securities in the U.S. This type of limitation would probably minimize any competitive advantages over U.S. banks but would also appear to be inconsistent with what Mr. Hills has called "a Congressional expression in the Securities Acts Amendments of 1975 supportive of the United States taking the lead in fostering a more open climate for international financing by permitting access by foreign firms to our market". The second type of limitation

was recently proposed by the New York Stock Exchange, Inc., in its statement dated February 4, 1976, filed with the Subcommittee on S. 958. While generally opposing grandfathering of securities affiliates of foreign banks, the NYSE proposed that if such affiliates were grandfathered then further injections of capital from the foreign parents, other than to replenish capital losses, be limited. While this approach would grandfather all activities, it could perhaps lead to similar conditions being imposed on the subsidiaries of U.S. banks abroad--thus putting U.S. banks at a competitive disadvantage with foreign banks.

Another possibility would be to limit operations in the United States to a single office location which would have the effect of prohibiting the future development of a significant retail business.

Overall, it would appear premature at this time to impose any specific limitations on the growth of U.S. securities companies affiliated with foreign banks. If, as is suggested in the Board's proposal, the Board were given the power to review and limit, if necessary, the activities of these affiliates under the standards of section 4 of the Bank Holding Company Act of 1956, as amended, this would seem the best solution at the present time, since the activities and relationships of these affiliates with the U.S. operations of their parent foreign banks could be reviewed in greater detail, and specific abuses, if any, could be dealt with by regulation or future legislation.

FROM FINANCE MAGAZINE JULY 1975

Foreign Firms on the Rebound

U.S. subsidiaries of overseas banks and brokerage houses post glittering results for the first half of 1975 after heavy losses many incurred last year. The New York Stock Exchange, however, still withholds the welcome mat.

FOREIGN SECURITIES firms in the U.S. have lately been enjoying the best of two worlds.

For one thing, they have been participating fully in the surge in stock market activity that has electrified Wall Street since late last year. However, in contrast to U.S. brokerage firms that are being squeezed by newly permitted commission rate cutting, most foreign-affiliated houses thus far have managed to withstand inroads from negotiated rates.

Reason: Bank trust departments, mutual funds and other financial institutions in the U.S. have been demanding, and receiving, sizable commission discounts in line with their fiduciary responsibility to keep costs down in buying and selling shares. In contrast, the overseas banks and institutions that funnel orders for U.S. securities through foreign-affiliated brokerages in this country are under no such compunctions. The foreign brokers, as a consequence, are able to negotiate lower brokerage fees in filling orders on the regional exchanges (mainly Boston, Midwest and Philadelphia-Baltimore-Washington where most of them are members) but provide in turn only modest discounts (if any) to their own customers abroad.

"We give some discounts, but the squeeze is nothing like that being felt by U.S. brokers," says Jean-Pierre Molin, president of Suez American Corp., in New York. Suez American is the U.S. brokerage arm of two Paris-based banks owned by Compagnie Financiere de Suez in the French capital, and is engaged almost entirely in buying and selling American securities for foreign investors. Molin estimates that about two-thirds of the U.S. affiliate's brokerage business comes either from the Suez group itself, or represents orders funneled through the group. The other third, he says, stems from various institutional sources abroad, totally independent of the French parent.

In any case, Suez American's business has indeed been good. "Because of the substantially higher volume, our gross revenue for the six months through June has already exceeded all of 1974," Molin states.

Suez American's experience is far from unique. New York-based ABD Corp., highly diversified U.S. securities subsidiary of four European banks, has parlayed the rise in stock volume and prices into pre-tax profits of $1.6 million for the first six months of 1975, up 20 percent from $1.3 million pre-tax for all of 1974, according to Theodor Schmidt-Scheuber, its energetic, hard-driving, president. Under his direction, ABD has carved out several profit centers in serving U.S. clients in addition to providing brokerage for its foreign parents. These include acting as "$2" or independent brokers and specialists on both the Boston and Midwest exchanges, block stock trading, underwriting and international arbitrage, among other things. The firm plans also to establish a $2-brokerage capability soon on the Pacific Coast Exchange, as well.

Big Board Seat

ABD Corp., in a potentially far reaching development, applied recently for membership on the New York Stock Exchange. Big Board rules have long denied membership to foreign-controlled broker dealers (in contrast to the regional exchanges which generally encourage membership). But this hasn't stopped feisty Schmidt-Scheuber, who is trying to get the Big Board to reconsider. The first foreigner admitted to the Boston exchange (in 1968) and currently that exchange's vice chairman (since the early 70s), Schmidt-Scheuber says frankly he covets a Big Board seat both for "the prestige" and the opportunity to become a specialist also on the senior exchange.

"It would be a logical continuation of our activities in the United States," he avers.

The Big Board has resisted foreign membership for one principal reason. "Our position is one of mutual non-discrimination," says a spokesman. "Right now, most foreign governments restrict U.S. securities firms to some extent, so we feel we have no other choice until these foreign countries start to treat our brokers as they want theirs to be treated."

Multiple Ownership

The four banks whose joint ownership of ABD Corp. dates from 1972 are Algemene Bank Nederland N.V. (Amsterdam), Banque de Bruxelles S.A. (Brussels), Bayerische Hypotheken-und-Wechsel Bank (Frankfurt) and Dresdner Bank A.G. (Frankfurt). Before the formation of the combined operation, Schmidt-Scheuber for four years previously had operated a securities business in the U.S. on behalf of Dresdner Bank alone.

The ABD president reports sharp revenue gains across the board for the current year. "So far this year, we have traded 30 million shares in the first five months against 46 million shares for all of 1974," he says. The firm's underwriting participations also are booming, having already topped $100 million so far this year, just a touch under $103 million registered in all of 1974.

Another leading foreign securities firm based in New York with multiple European bank parentage is SoGen-Swiss International Corp. Income from commission business and corporate bond trading, Sogen Swiss' two principal revenue sources, has been "running well ahead" of last year, according to Hart Perry, president and chief executive officer. Corporate finance activities are also surging: This past spring SoGen co-managed (with White, Weld & Co.) its first public offering, a $100 million offering on behalf of Banque Francaise du Commerce Exterieur (the French version of the U.S. Export-Import bank).

Established in its present form two years ago, SoGen Swiss has six parent banks: Amsterdam-Rotterdam Bank, N.V.; Credit Suisse (Zurich); Societe Generale, Societe Alsacienne de Banque and Societe Generale de Banque, all of Paris, and Sofina, S.A. Brussels. With those banks' approval SoGen Swiss has added to its underwriting and brokerage activities and has now designed services principally for U.S. clients, including municipal bond and money-market trading desks.

All told, there are currently 31 brokerage affiliates of foreign parent companies active in the U.S., clustered principally in Wall Street with a scattering of offices in Chicago, Los Angeles, San Francisco and Boston. Roughly a third of the total are owned by one or more foreign based banks, characteristically a consortium of several banks representing different European countries (as in the case of SoGen and ABD). The other two-thirds are mainly tied to investment banking houses and securities firms principally in London and Japan. (See detailed listing accompanying this article).

Japanese Entries

The foreign securities community in the U.S. has been expanding rapidly. The current contingent represents an increase of 30 percent from 23 a year ago. Yet this could only be the beginning if ABD Corp.'s challenge of the Big Board's prohibition against foreign membership finally bears fruit.

Among the various nationalities, perhaps the most cohesive single contingent consists of five Japanese securities subsidiaries — Nomura Securities International: Nikko Securities Co. International; Daiwa Securities Co. of America; Yamaichi International (America) Inc.; and New Japan Securities International. The Japanese subsidiaries along with most of the other foreign firms (and much of Wall Street itself) lost money last year (ABD was one of the notable exceptions). To cope with hard times in 1974, the Japanese firms cut back on their staffs in the U.S. and otherwise battened down the hatches. They are thus now doubly pleased over this year's gains in both their commissions and underwriting activity.

U.S. BROKERAGE AFFILIATES OF FOREIGN FIRMS AS OF YEAR-END 1974
(Excluding Canadian)

U.S. BROKERAGE SUBSIDIARY*	PARENT(S)
ABD Securities Corp.	Algemene Bank Nederland (Amsterdam); Banque de Bruxelles (Brussels); Bayerische Hypotheken-und Wechselbank (Frankfurt); Dresdner Bank (Frankfurt)
AS Securities GmbH	De Nueflize, Schlumberger and Maillet; Contrust A.G.; Banque Nagelmachers; Saifi Securities Int'l. Ltd.; CRM Vermogensberatung GmbH; Williams & Glyn's Bank Ltd.; Steinhauslin Int'l. Holding S.A.; Delbruck & Co.; Banque Jenni & Cie.; F. Van Lanschot Bankiers; Vickers Da Costa & Co., Ltd.; Bank in Liechtenstein; Societe Privee de Gestion Financiere; Bankhaus Ellwanger & Geiger; Banque De Gestion Privee; Banca Solari & Blum
Baer Securities Corp.	Julius Baer & Co. (owned by Fibena, A.G.)
Basle Securities Corp.†	Swiss Bank Corp. (Basle)
James Capel Inc. (Division of Winmill Secs., Inc.)	James Capel & Co. Ltd. (London)
Cazenove Inc.	Cazenove & Co. Ltd. (London)
Daiwa Securities Co. America, Inc.	Daiwa Securities Co. Ltd. (Tokyo)
Deltec Securities Corp.†	Deltec Banking Ltd. (Bahamas)
Europartners Securities Corp.	Banco di Roma (Rome); Commerzbank (Frankfurt); Credit Lyonnais (Paris)
Robert Fleming, Inc.	Robert Fleming & Co. Ltd. (London)
Hill Samuel Inc.†	Hill Samuel & Co. Ltd. (London)
Kleinwort Benson, Inc.†	Kleinwort Benson Ltd. (London)
Lombardfin S.p.a.	Bank Steinhauslin of Frankfurt
Metzler Securities GmbH	Metzler Private Bank
New Court Securities Corp.	Arcan N.V. (owned by Banque Lambert); Banque Rothschild (Paris); Pierson, Heldring & Pierson (Amsterdam); N.M. Rothschild & Sons Ltd. (London)
New Japan Securities Int'l. Inc.	New Japan Securities Co. Ltd. (Tokyo)
Nikko Securities Co. Int'l., Inc.	Nikko Securities Co. Ltd. (Tokyo)
Nomura Securities Int'l., Inc.	Nomura Securities Co. Ltd. (Tokyo)
North American Securities	North American Fund Management Corp. (London)
Overseas Securities Co., Inc.	Pictet International Bank
Rowe & Pitman, Inc.	Rowe & Pitman, Ltd. (London)
RWS Securities Services	Westdeutsche Landesbank Gironzentrale
Joseph Sebag, Inc.	Joseph Sebag & Co. Ltd. (London)
S & L Incorporated	Stocken & Lazarus
SoGen Swiss International Corp.	Amsterdam-Rotterdam Bank N.V.; Credit Suisse (Zurich); Societe Generale; Societe Generale Alsacienne de Banque; Societe Generale de Banque (Paris); Sofina S.A. Brussels
Suez American Corp.	Banque de Suez et de l'Union des Mines; Compagnie Financiere de Suez (Paris)
Swiss American Securities, Inc.	Swiss American Corp. (owned by Swiss Credit Bank)
Transatlantic Securities Co.	Lombard, Odier & Cie. (Geneva)
UBS-DB Corporation	Deutsche Bank (Frankfurt); Union Bank of Switzerland (Zurich)
Ultrafin International Corp.	La Centralie Finanziaria Generale (partly owned by Banco Ambrosiano); Investco S.A. (owns Kreditbank N.V. Brussels)
Yamaichi Int'l. (America), Inc.	Owned by Yamaichi Securities Co. Ltd., which in turn is owned by a number of foreign banks: Fuji Bank of Japan; Industrial Bank of Japan; Mitsubishi Bank

*Member of a regional exchange, except as otherwise noted.
†Member of NASD only.

Normura, the largest of the group, reports that its commission business thus far this year is over 25 percent ahead of the corresponding period of 1974 while its underwriting volume is up "by much better than 25 percent," according to a spokesman. In recent months Nomura has co-managed two sizable securities offerings of $50 million each: an issue of 7¼% convertible debentures brought out for Komatsu Ltd., big Tokyo-based tractor equipment manufacturer, in conjunction with Merrill Lynch, Pierce, Fenner & Smith and J. Henry Schroder Wagg; and an issue of 8½% guaranteed notes of the Japan Development Bank, comanaged with First Boston Corp., Smith Barney and Dillon Read.

Pre-May Day Commissions

Helping the Japanese securities subsidiaries in the U.S. is the fact that they have been subjected to little or no pressure to discount under the negotiated rate syndrome currently sweeping Wall Street; if anything, ironically, they have benefitted from the situation. That's because, to the extent the Japanese securities firms place orders for stocks through member firms of the NYSE, their cost is discounted to some extent; but when the Japanese firms later resell to investors in the home islands, they do so at the old fixed rates, and thereby, if anything, widen their spread. The situation clearly has been too good to last; U.S. brokers, for one thing, have become more active in offering the discounts directly to investors in Japan, instead of dealing through intermediaries. As a consequence, the Japanese Finance Ministry recently has begun exchanging views with the Japanese securities firms on the possibility of negotiating customer fees to keep them competitive.

Although the Japanese subsidiaries have benefitted from the spreads, they have not pressed especially hard for the discounts, according to sources close to Japanese brokerage practices. "There's been no need to," says an official. "American brokers have been swarming all over us, volunteering discounts," he adds — though concededly those discounts are not as great as the concessions granted more demanding U.S. institutions.

Not all foreign securities subsidiaries in the U.S. are dealt with as generously. SoGen Swiss, for example, does a fair amount of brokerage for U.S. institutional investors on U.S. multinational corporations, as a result of a unique research service it originates on the European operations of those companies from the Continent. The U.S. institutions in these instances insist on substantial discounts, and to "meet the competition," SoGen has been cutting its fees by 20 to 25 percent, President Perry says. Now, foreign investors, including the firm's parent banks, also are requesting discounts though the "pressure is not as severe," he adds; in those instances, the reduction tends to run from 10 to 15 percent.

Other major foreign securities subsidiaries in the U.S. — also formed by two or more European banks — include Euro Partners Securities Corp., owned jointly by Credit Lyonnais (Paris), Commerzbank (Frankfurt) and Banco di Roma (Rome); and UBS-DB Corporation owned by Deutsche Bank (Frankfurt) and Union Bank of Switzerland (Zurich). The two subs are among the most active of the foreign firms in participating in underwritings in the U.S.

The big news these days, however, is the rediscovery of U.S. stocks by foreign investors. The New York Stock Exchange, which keeps tabs on such matters, declares that the jump in trading volume in U.S. corporate stock on behalf of foreign investors was nothing short of "dramatic" in the first quarter of 1975, the latest period for which figures are available. According to the International Finance division of the Big Board's Research Department, such activity in the first 1975 quarter soared to almost $5.6 billion, an increase over 50% from the fourth quarter of 1974. Although Big Board member firms with international offices usually account for the lion's share of such foreign brokerage business, their market share in the latest report period slipped to 58 percent from 62 percent. Reason: Foreign institutions apparently channeled a larger proportion of the business to the U.S. subsidiaries of foreign banks, brokerages and other parent organizations.

Foreign activity in listed U.S. securities in the first quarter mainly involved purchases and showed particularly sharp increases for Switzerland, United Kingdom, France, Germany, Canada and the OPEC Persian Gulf Countries. Only Japan showed a decline in overall activity with sales of U.S. securities running well ahead of purchases.

As foreigners stepped up their interest in U.S. stocks, Americans were returning the favor. U.S. investors for some years have avoided securities of foreign corporations, but in the first 1975 quarter again became net buyers on balance of foreign securities. Americans showed the greatest interest in acquiring the stocks of British, Canadian and Japanese companies; much of the U.K. activity, it is believed, reflected the buying of South African gold mining shares.

There are other basic differences in international investment practices. When U.S. investors buy shares of European companies they tend to funnel their orders through N.Y.S.E. member firms. Orders by U.S. investors for Japanese equities, on the other hand, are usually handled directly by the U.S. subsidiaries of Japanese broker-dealers. One reason is that Japanese securities firms are especially diligent in providing research coverage on Japanese corporations. It gives them an edge in attracting U.S. investors. —H.L.S. ■

FROM THE
INSTITUTIONAL INVESTOR DECEMBER 1974

Why foreigners are buying into Wall Street firms

by John Thackray

The sense of despondency in the securities industry has many causes. But one of them — perhaps the most critical for Wall Street's long-term survival — is the question of capital. Basic capital, fundamental economic power, is being leeched from securities firms at an alarming rate. According to the New York Stock Exchange, the capital of member firms had fallen from $3.7 billion in late 1973, to less than $3.3 billion in late 1974. The trend will undoubtedly worsen. "There is every evidence available to us that significant amounts of money are standing on the threshhold of withdrawal," says SEC commissioner Alfred Sommer, Jr.

The reasons for taking capital out of Wall Street are obvious enough: The bear market, negotiated rates and what they're doing to profits, and the unwillingness of traditional lenders, such as banks and insurance companies, to supply resources in times like these. Even equity offerings by brokerage firms, which once held out such promise, have long since fizzled.

Who, then, will invest capital in Wall Street these days? There lately has seemed to be but one answer: Investors from overseas. In fact, as a New York Stock Exchange official admitted recently: "Some people on the Street are saying that the *only* source of capital is foreign money."

Few people in the investment community believe that the capital inflow from abroad will become enormous, just because the appetite for it exists. Yet already the extent of foreign investment capital is substantial, if one includes the non-NYSE members, which are subsidiaries of foreign banks. The figure easily comes to around $250 million — more than all the money that the Street raised through its public offerings. And there's little doubt this amount will increase, while U.S.-generated capital will probably continue to shrink. Most of the increase will very likely come from indirect investments, and minority positions in existing firms, rather than fresh start-ups of foreign banking and brokerage affiliates.

Buying American

The trend toward indirect investments was kicked off by William D. Witter & Co. in 1971, when a subsidiary of Belgium's Banque Lambert agreed to invest $3.2 million in this brokerage firm. The deal was Model Roland equity.

The movement really picked up steam this year, however, which saw no fewer than four substantial deals:

- Ares Equities Corp., parent of the NYSE member firm, Federated Securities, accepted $3.4 million for the private sale of 34 per cent of its common to French and Swiss interests.
- In a complex transaction, Zurich's Credit Suisse Bank sank an additional $11.2 million to raise its ownership of Europe's WW Trust to 41 per cent; the trust then purchased a 29 per cent interest in White, Weld.
- Warburg-Paribas both sold their investment banking businesses to A. G. Becker and promised to invest $25 million in the combined firm, for 20 per cent of the equity.
- And, finally, two subsidiaries of the Banca Commerciale Italiana invested $7 million for a minority share of Lehman Brothers.

In a sense, these foreigners are demonstrating as much temerity as U.S. investors have shown fear and distrust in the future of their own securities industry. Yet there are diverse reasons for the foreigners' attitudes — some belonging to the same cluster of motives that has lately spurred foreign industrial corporations to buy into ongoing U.S. concerns. Dollar devaluation has made all U.S. investments relatively more attractive to foreigners. These days, moreover, the U.S. offers a measure of political stability that Europeans - Italians and British especially — compare favorably to their own domestic situations. They can buy stability and continuity through geographical diversification into one of the relatively few countries where foreign investment is probably safe. Then, too, European financial institutions are also compelled to follow their own industrial clients' expansion to the U.S., just as U.S. bankers, auditors and management consultants rode in the wake of the post-war expansion by American business.

Moreover, there seems to be a widespread feeling among the experts that future world capital movements will increasingly cluster around Wall Street. Few investment bankers are sanguine over the fu-
-lor preferred at 6 per cent, convertible into 20 per cent of the equity. Subsequently, a subsidiary of Milan's Banca Commerciale Italiana took an investment in Model Roland, which has since merged with Shields. This investment now amounts to something on the order of 10 per cent of the Shields
ture of the Eurodollar market. And they tend to feel that the impact of the lifting of the Interest Equalization Tax earlier this year has only been postponed; a huge tide of incoming and outflowing capital can be expected here sometime in the future (*Institutional Investor*, April 1974). One aspect of this tide would be a substantial increase of foreign indirect investments in the U.S. capital markets — particularly if the withholding tax on bonds is abolished, which many feel is probable.

All this is not to say that these foreign plays are not without risk. For instance, James Capel, the London stockbroker, had a sizeable investment in Chicago's Winmill Securities, which has gone into voluntary liquidation. "I'd not recommend such investments," says Hugh Eaton, executive vice president of the merchant banking firm of Robert Fleming in the U.S. "There are too many imponderables about the future of Wall Street." And so, because of sensitivity to such risks, most new foreign capital is being injected into well-managed, quality firms that are most likely to survive any further shakeouts in the industry.

Taking aim

Judging from the track record of the existing foreign subs, the potential foreign investor might reasonably conclude that a minority share in a going concern is now a better deal than a start-up. As evidence of this, observers cite the fact that no new subsidiaries of foreign brokers or institutions have been founded in at least four years. "The risks are great, and the lead time is long," explains John LaGrua, president of UBS-DB. "You need $15 million in capital and five years to begin an investment banking operation in the U.S." Even then, success is elusive; the majority of the established foreign subs are losing money. And most have failed to achieve their parents' objectives in the investment banking area.

Such shortcomings, some sources say, caused Credit Suisse and the owners of Warburg-Paribas to make substantial investments in White, Weld and Becker, respectively. "Some of the major European banking and merchant banking institutions want to increase their standing in investment banking activities worldwide. In the U.S., the best way to do it is to have a direct participation in a major U.S. firm," says the president of a major investment banker with a large foreign shareholder. "The foreign subs have just dawdled along — and it will take a lifetime for them to get off the ground." Credit Suisse, for instance, has an investment in SoGen-Swiss International. "But the affiliate idea does not do enough for Credit Suisse, which is why they sank dough into White, Weld," says this same banker.

But the form of these investments can also be a matter of necessity. The Banca Commerciale, for example, tried to go it alone in U.S. investment banking with an outfit called First Washington Securities. But the attempt failed and the remedy was to merge with Model Roland. Likewise, Banque Lambert, which has an investment in New Court Securities as well as in Witter, reasoned that, in the words of Lambert Brussels' president Jonathan Isham: "We didn't want to be a sub-sub major, or just be here to recapture commissions. We didn't see the point of competing with major local investment banking institutions." In short, the Lambert bank, only the fourth largest in Belgium at the time of its investment, was aware of its limitations. The best way for it to avoid being too small a fish in the American pond, the reasoning went, was to "get exposure to and involvement with a quality house," as Isham describes it.

Quite probably, therefore, the majority of new, foreign investments in the Street will be by the smaller foreign groups that don't have U.S. subs. There are literally hundreds of these, in Scandinavia, Britain, the Far East and, naturally the Middle East. "The trend will continue, and expand. Eventually even some Arab money could seek investments in Wall Street, predicts Theodore Schmidt-Scheuber, president of ABD, who reasons that if billions of petrodollars to be recycled in New York, the Arabs probably won't be satisfied with being mere passengers on this railroad. They will want to own a piece of also – just as, (much smaller scale, the big European banks refused to let U.S. brokers take all the commissions they generated.

There are, to be sure inhibiting factors at work here. The prices of all international investments are now historically low. "Everything is cheap, all over the world. The choices open to capital are widespread. And there are many competing needs for it. observes James Coxon, president of Kleinwort, Benson What's more, the worldwide liquidity shortage causes restrictions on the free flow of international capital. "To make an American acquisition with British pounds, we'd have to have the Bank of England's permission, which we'd probably not get," says Hugh Eaton of Robert Fleming. (Warburg will find its funds for the Becker investment either from non-Sterling sources, or will probably have to pay the current premium of nearly 50 per cent to buy the dollars that the Bank of England auctions for foreign investment purposes.)

Buying value

Actually, however, the new foreign investors on Wall Street contend they aren't really bargain hunting. "They are thinking much more of the industrial 'fit' between themselves and the U.S. firms, says Oppenheimer's Leon Levy. "If they were buying for investment they could buy Merrill Lynch below book value. The Credit Suisse investment in White, Weld is at book value, despite the fact that White, Weld will have a slight loss in the current year. The Lehman deal was also consummated on attractive terms: $5 million of the $7 million investment was in the form of per cent, non-voting preferred shares, most of the rest in common. 'We are predominantly interested in the synergism and interaction between us and our foreign investors to help us achieve mutual international objectives. says Lehman's chairman Peter Peterson.

The Lambert-Witter deal, meanwhile, had a similar rationale. Banque Lambert talked to a number of Wall Street houses before investing in Witter. The Brussels bank was — and is — a strongly research-oriented institution. It loomed large in the formation of an international research consortium, called EIRV, which pools the research of nine powerful European institutions. And in this case, Lambert and Witter envisioned that there would be collateral benefits on both sides. Lambert would help Witter sell its research in Europe — and indeed, the "halo over the Banque Lambert's success radiated and helped open doors for us in Europe," says Witter chairman James Balog. But the hopes that this deal would lead to the foundation of a globally-oriented Witter research effort have not yet materialized — partly because U.S. institutions are still in the early stages of buying foreign securities these days. The three-year partnership period has been spent in "working out the enormous problems of communication that exist, even where, like ourselves, we feel great empathy with each other," says Isham.

The truth of it all is that synergism hasn't had much of a chance in the market climate of the last two years. H. Virgil Sherrill, president of Shields Model Roland, says of the Banca Commerciale's investment in his firm: "Their motive and ours was to improve and increase our investment banking activities worldwide. We look upon this association as something more than a cash investment." Yet the results so far, Sherrill candidly admits, have been "very nebulous." Rumor has it that the Banca Commerciale people have been very uninterested in their Model Roland position, which has fallen steeply in value since the investment was made.

Instead, their enthusiasm these days is focused on Lehman Brothers and the new synergistic possibilities. Lehman's chairman Peter Peterson has long thought that U.S. investment bankers have made a poor showing abroad, at least compared to the U.S. commercial banks. He also believes that Lehman is well positioned to make up for lost time in this area. One advantage of the deal with Banca Commerciale subsidiaries is that the new shareholders can supply Lehman with a stronger capability to syndicate medium-term, international credits — in much the same way as the Mellon Bank's resources are available in London to First Boston, its co-partner in First Boston International. Another area of promise is Latin America, where the new shareholder is well represented, and Lehman is not.

Emotional trend?

This internationalization of Wall Street capital can, of course, be considered something of an emotional, quasi-political issue. It raises the possibility of dominance by outside — and un-American — forces. The New York Stock Exchange says it has strong safeguards against that possibility, with its rule that foreign interests not have more than 24 per cent of voting control, and not own more than 45 per cent of total debt plus equity of a member firm. But there is nothing in those rules that prevents a foreigner from investing in two or three brokerage firms simultaneously, just as the Banca Commerciale has done. Moreover, to define control in such categorical, statistical terms may not be realistic. There are many instances where an investor has effective control with less than 20 per cent of the equity.

Over the last three years, moreover, there's been a slow liberalization of the rules governing foreign investment in NYSE members. And those firms that now have foreign investors will doubtless exert pressure to have the regulations made even easier. For example, the Warburg Paribas Becker partners have stated publicly that they hope the foreign interest will rise to half of the firm's capital. Privately, the Becker people may wish for more. For clearly, there is some insurance for them in having wealthy partners who can invest more funds when, and if, the other shareholders want to bail out. "I'd venture that in time we shall see additional infusions of foreign capital into firms that already have foreign shareholders," says John LaGrua of UBS-DB.

The sheer diversity of foreign money institutions makes it difficult to predict how this future flow of funds into Wall Street will eventually evolve. For instance, Kleinwort, Benson, a merchant banker principally involved in corporate finance, would be unlikely to buy a brokerage concern, because it feels there is a conflict between these two roles. Robert Fleming, a big force in U.K. money management, would also be unlikely to buy into a brokerage concern, but for different reasons. For one thing, it would not want to compromise its access to Wall Street research. "We'd be more inclined to buy into a mutual fund, or a large U.S. investment management firm," says Fleming's Hugh Eaton, indicating what might be another trend for the future.

Interviews with the foreign affiliates in New York indicate that most say they are unlikely to imitate the Warburg-Paribas maneuver. (Although one source did hint that Basle Securities, owned by the Swiss Bank Corp., could make such a move because its relative standing in the U.S. is considerably short of the bank's rank in Europe.) But denials of merger are to be expected from the foreign affiliates. Last spring, one of the most positive, and optimistic, managements among the foreign subs was Warburg-Paribas; by the fall they had thrown in the towel.

Indeed, the air is currently rife with rumors of this and that firm being a target for foreign investors. And there has, in fact, been reported horse-trading in this area. It is known, for instance, that Lehman approached Robert Fleming with a proposal. On the other hand, one large foreign institution is said to have wanted to invest heavily in Lehman — but was repulsed because it wanted too much control of the operation.

In any event, the summer and fall of 1974 saw a persistent flow of high-level, would-be suitors traveling to Europe, looking for money. One of these, according to reliable sources, was none other than Oppenheimer's Leon Levy. And as long as the capital drain continues on Wall Street, it's a trend that is not likely to flag. For the moment, the dollar amounts are slight, to be sure. But for the recipients, they can go a long way toward the difference between strength and weakness.

FROM THE FINANCE MAGAZINE MARCH 1975

The Securities Industry turns the corner with a hefty profit in the fourth quarter of 1974 and an even more bountiful performance in the first quarter of 1975 now ending. Cries of "super" ring again through the revitalized New York financial district.

By H. LEE SILBERMAN

THE WORD "SUPER" is returning with a bang to the Wall Street lexicon.

The last time the street reverberated to superlatives like "super company," "super deal" and "super guy" was in the halcyon days of the sixties, and again (all too briefly) in the 1972 bull-market interlude. Starting in early 1973, however, the stock market went into a protracted tailspin, wiping out in almost two years some $545 billion in equity values, sharply depressing trading volume and forcing scores of additional securities firms out of business. In place of its former ebullience the securities industry sank deeper into a state of torpor.

The steep slide had been brought on, of course, by double digit inflation, sharply rising interest rates, and the recognition that the economy itself was probably headed for a fierce shaking out. Then late last Fall, inflationary and interest-rate trends finally appeared to peak and the market consensus, looking far enough out, was emboldened to foresee an ultimate end of the still evolving economic recession. Like the legendary phoenix arisen from the ashes, Wall Street itself has taken wing again.

Heralding the regeneration, The New York Times featured a three-column headline on its front page in mid February proclaiming: "Wall Street in the Black." The substance of the report was that New York Stock Exchange member firms in the fourth quarter of 1974, thanks to substantially higher stock market volume and an 8 percent commission increase in November, had logged enough aggregate pretax earnings to wind up the year as a whole nearly $46 million in the black. The year before the same firms posted a composite net loss of $49 million.

Specifically the 425 member firms participating in the NYSE survey had chalked up combined pretax profits in the fourth quarter of $137.6 million. This more than wiped out the firms' nine-month deficit of $91.8 million which in turn reflected the particularly difficult second and third quarters when stock prices and share volume dropped to painfully low levels.

The sharply improved fourth-quarter results carried strongly into the first quarter of 1975, on the wings of a continuing, dramatic decline in short term interest rates and a further slowing in the rise of inflation. Average daily trading volume on the Big Board in February, 1975, was running close to 22 million shares (up from 15.2 million daily shares in the fourth quarter of 1974) with the average price per share up over 20 percent. Many industry analysts accordingly were confidently expecting aggregate pretax earnings of the reporting NYSE member firms to jump by at least 200 percent and perhaps as much as 300 percent, in the first quarter of 1975 over the $138 million or so registered in last year's fourth quarter. "The months of January through March are shaping up as a *super quarter;*" says an industry spokesman.

Edward I. O'Brien, president of the Securities Industry Association, major industry trade group, hails the dramatic turnaround in the industry's fortunes. "It means that the firms can face the future with increased confidence," he says.

What is the likelihood that the earnings trend will continue?

Securities industry executives expect the firms to remain in the black, although they doubt that the recent momentum can be sustained. Mostly they are concerned about the long scheduled, highly controversial switch to an across-the-board system of unfixed commission rates as of May 1, 1975. Inevitably, they feel it will result in some diminution in brokerage commission revenues of as yet unknown proportions. H. Virgil Sherrill, chairman of the Securities Industry Association, principal industry trade group, is hoping for the best. He anticipates that the forthcoming "Mayday" change in the present schedule of quasi-fixed and quasi-free rates — consisting of fixed minimum rates on transactions from $2,000 up to $300,000, with negotiated "competitive" rates both below and above that range — could result in a decline of as much as 25 percent in commission revenues on institutional transactions. However, he expects, by contrast, "that there generally will not be any great upheaval in the retail rate structure after May 1"— an appraisal based apparently on the expectation that currently high fixed operating costs will inhibit much rate cutting. Sherrill who is also president of the large diversified New York-based firm of Shields Model Roland, Inc., anticipates, additionally, that many firms are likely, if anything, to assess separate additional fees for various "unbundled" services they previously provided without charge (notably for research and the safekeeping of client-owned securities), and thereby to add to their income.

A crucial variable in determining brokerage revenue, of course, is the future volume of share trading — a highly unpredictable element, at best. While securities executives are hoping that turnover stays high, many believe that the recent surge mainly reflected major buying programs of large institutions and borrowed from trading they might do in the future. But if the volume outlook is cloudy, securities people currently have a better fix on another major revenue source — specifically, prospective income from the underwriting and syndication of new securities issues. The volume of such offerings (notably debt issues by corporations) has exploded since the start of 1975 as a great variety of issuers acted to rebuild liquidity choked off during last year's tight-money syndrome. The volume of such offerings rose to a substantial $3.6 billion in January, totalled $3.1 billion in foreshortened February and was running at a rate of over $4 billion in March — up sharply from the average monthly flow of $2.1 billion in 1974, itself a fairly active year.

Two other factors lately have been favoring the economics of Wall Street firms: First is the appreciation in the value of the firms' inventories of securities held for their own account — improvement resulting from the dramatic decline in interest rates over the past six months or so, and which has bolstered the firms' balance-sheet and capital positions. Second, the firms continue to benefit from the sharp reductions in operating costs that they generally put into effect in 1973 and 1974 to cope with the depressed markets in those years; the relatively lower fixed costs are now enabling them to translate a greater proportion of their recently increased revenues directly into profits.

While these developments have been all to the good, they did not happen fast enough to contribute meaningfully to the capital funds of even the nation's larger securities firms in 1974. (See accompanying table ranking the top 100 underwriting firms by capital position.) The total capital of the 25 largest firms amounted to $2.1 billion (over $1.65 billion in equity and the remainder in subordinated liabilities), compared with just under $2.0 billion in capital funds ($1.5 billion equity) at year-end 1973.

In lieu of retained earnings, one visible source of new capital for some firms has been the continued infusion of long-term funds from abroad. NYSE rules limit foreign participants to a maximum 25 percent interest in the voting stock of a member firm and a top 45 percent stake in its capital formation and profits. Eight Big Board member firms have foreign partners, as shown in the accompanying list. Two, Oppenheimer & Co., and A.G. Becker & Co., (now Becker & Warburg-Paribas Group) were the latest to announce new foreign ties. While the investment terms differ in each of the eight cases foreign participants have added millions in capital funds to the eight Big Board firms.

Last year saw some 45 houses disappear from the roster of securities firms (28 by merger, 17 via liquidation) including several fair-sized ones. The largest, Shearson, Hammill & Co., Inc. (which ranked 20th in last year's listing with $40.6 million in capital funds) was merged into Hayden Stone, Inc. (No. 23 with $39.8 million capital); the resultant firm, Shearson Hayden Stone, Inc. moved up in the current ranking to 10th place, with total capital in excess of $65.7 million.

Another prominent firm that has gone by the boards via the merger route is Model Roland & Co., Inc. (No. 69 with $11.3 capital in last year's ranking.) Model joined forces with Shields & Co., Inc., (No. 35 and $22.3 million capital). The resultant Shields Model Roland, Inc. now holds down 30th spot in the current ratings with total capital of $24.3 million.

Also conspicuous by its absence from this year's list is the venerable old-line member partnership of W. E. Hutton & Co. Hutton, which held position No. 39 with $20.5 million in capital last year, is in liquidation, after merging some of its activities into Thomson & McKinnon Auchincloss Kohlmeyer, Inc., durable retail-oriented house currently rated as No. 26, with $31.6 million in capital funds.

Stone & Webster Securities Corp., which ranked 49th with nearly $17 million in capital last year, is another firm that has since gone quietly out of the brokerage business. The company continues its major management consulting and engineering businesses under the Stone & Webster name.

For the most part, there has been a decided dropoff in reports of merger activity in recent months, corresponding roughly to the pickup in industry conditions starting late last Fall. What is happening, in brief, is that the latest sharp improvement in the securities markets is again "bailing out the Street" — a deus-ex-machina phenomenon that has recurred again and again in Wall Street's variegated history of nearly 200 years.

Since the start of the long bear market in 1969, however, well over 500 firms of some consequence have fallen by the wayside, so there are now fewer houses in need of rescue. Industry analysts anticipate, moreover, the brokerage community will have contracted further the next time an up cycle rolls around.

"We'll never really eliminate the cyclicality of the securities industry," says Roger Klein, SIA economist and research director. "The trend ironically is usually contracyclical — that is, Wall Street does well while the rest of the economy is suffering and vice versa."

Yet on some occasions, the market, industry and the economy have been on the same clock; this was the case in 1968 and again in 1972 when the market, the securities business, and the economy were all on the crest of an expansionary phase. Clearly something had to give, and each did, indeed, fall victim to a disinflationary Federal economic policy: Now the market and Wall Street are again in the ascendancy. If past is prologue, that foreshadows imminent economic recovery as well.

Foreign Participation in New York Stock Exchange Member Firms

NYSE Member	Foreign Participant
Becker & Warburg-Paribas Group, Inc.	Compagnie Financiere de Paris et des Pays-Bas and S. G. Warburg & Co., Ltd.
William D. Witter, Inc.	Compagnie Lambert of Belgium
Lehman Brothers, Inc.	Svizzera and Sudamerica, subsidiary companies of the Banca Commerciale Italiana
White, Weld & Co., Inc.	Credit Suisse of Switzerland
Shields Model Roland, Inc.	Jovitha AG of Switzerland and Banca Commerciale Italiana
Lazard Freres & Co.	Several non-American partners, most of them French
Federated Capital Management Associates Inc.	Two Swiss holding companies, Brandon Finanz AG and Nevfina AG
Oppenheimer & Co., Inc.	Cables Investment Trust, Ltd. (a member of London's Electra House Group)

Top 100 Underwriting Firms in Order of Capital Position

RANK 1974	RANK 1973		Total Capital Position	1974* Equity Capital	1974* Subordinated Liabilities	1973 Total Capital Position	1974* Ratio of Aggregate Indebtedness to Net Capital	Fails 30 Days or Older 1974 (000 Omitted)	Fails 30 Days or Older 1973 (000 Omitted)
			(000 Omitted)						
1	1	Merrill Lynch & Co., Inc. (H)	$546,002	$506,002	$40,000	$499,168	4.97	[illegible]	[illegible]
2	3	Salomon Brothers (P)	123,700	93,700	30,000	121,700	4.09	[illegible]	[illegible]
3	2	Bache & Co. Incorporated (C)	120,431	98,576	21,855	124,373	5.90	[illegible]	
4	4	E. F. Hutton Group Inc. (H)	99,895	65,078	34,817	93,821	5.55	[illegible]	
5	7	Dean Witter & Co. Incorporated (C)	85,519	67,601	17,918	85,980	4.20	[illegible]	[illegible]
6	6	Paine Webber Incorporated (H)	84,384	61,084	23,300	86,491	4.39	[illegible]	[illegible]
7	5	Loeb, Rhoades & Co. (P)	78,320	38,000	40,320	90,239	7.29	[illegible]	[illegible]
8	8	Goldman, Sachs & Co. (P)	76,000	61,000	15,000	78,000	2.40	[illegible]	[illegible]
9	11	Allen & Company (P)	70,302	70,302	—	74,638	0.56	[illegible]	
10	■	Shearson Hayden Stone Inc. (C)	65,733	30,928	34,805	■	6.31	[illegible]	■
11	9	Blyth Eastman Dillon & Co. Incorporated (C)	63,809	39,526	24,283	77,091	5.82	[illegible]	[illegible]
12	10	Donaldson, Lufkin & Jenrette, Inc. (H)	63,122	47,222	15,900□	74,971	3.00		
13	12	The First Boston Corporation (C)	61,655	61,655	—	58,447	1.4	[illegible]	[illegible]
14	■	The Becker and Warburg – Paribas Group Inc. (H)	56,580	28,672	27,908	■	6.09	[illegible]	■
15	13	Stephens Inc. (C)	56,139	56,139	—	58,082	3.45		
16	14	Reynolds Securities Inc. (C)	55,051	55,051	—	54,576	3.70	240	[illegible]
17	16	White, Weld & Co. Incorporated (C)	50,745	26,743	24,002	48,736	6.96	[illegible]	[illegible]
18	■	Lehman Brothers Incorporated (C)	49,998	25,079	24,919	■	5.01		■
19	15	Drexel Burnham & Co. Incorporated (C)	49,059	27,985	21,074	52,308	3.68	[illegible]	[illegible]
20	17	Kidder, Peabody & Co. Incorporated (C)	48,486	44,083	4,403	47,822	6.12	[illegible]	[illegible]
21	22	Oppenheimer & Co. (P) ††	41,825	28,451	13,374	40,020	1.94	28	[illegible]
22	18	Smith, Barney & Co. Incorporated (C)	39,829	20,379	19,450	44,966	3.25	77	[illegible]
23	21	Carl Marks & Co., Inc. (C)	37,169	37,169	—	40,441	1.11	[illegible]	[illegible]
24	24	Weeden & Co. (C)	33,362	23,862	9,500	37,639	1.90	[illegible]	[illegible]

25	29	Aubrey G. Lanston & Co. Inc. (C)	32,000	32,000	–	32,000	NA	-	-
26	26	Thomson & McKinnon Auchincloss Δ Kohlmeyer, Inc. (C)	31,572	7,809	23,763	34,000Δ	7.40	532	1,102
27	31	Bear, Stearns & Co. (P)	30,000	30,000	–	30,000	4.31	34	83
28	30	L. F. Rothschild & Co. (P)	27,305	25,300	2,005	30,400	3.95	28	14
29	28	Hornblower & Weeks – Hemphill, Noyes Incorporated (C)	26,529▲	14,759▲	11,770	33,524▲	7.17	275	459
30	■	Shields Model Roland Incorporated (C)	24,310	12,277	12,033	■	3.47	196	■
31	37	A. G. Edwards & Sons, Inc. (C)	23,145	18,000	5,145	21,686	2.58	92	75
32	40	Morgan Stanley & Co. Incorporated (C)	22,522	17,227	5,295	19,976	1.60	88	19
33	NA	Wertheim & Co., Inc.	21,907	14,407	7,500	NA	4.08	-	NA
34	39	Stern Brothers & Co. (C)	21,903	21,903	–	20,652	0.27		4
35	32	Harris, Upham & Co., Incorporated (C)	21,035	11,734	9,301	29,088	7.10	200	253
36	19	Shelby Cullom Davis & Co. (P)	20,084	16,084	4,000	43,141	0.16	-	4
37	36	Neuberger & Berman (P)	20,000	20,000	–	22,171	2.65	119	178
38	44	Discount Corporation of New York (C)	18,730	18,730	–	18,109	NA	–	-
39	34	Alex. Brown & Sons (P)	17,939	17,789	150	22,318	1.69	–	–
40	45	Kuhn, Loeb & Co. (P)	17,762	12,762	5,000	17,636	2.01	-	64
41	46	Lazard Freres & Co. (C)	17,500	17,500	–	17,500	1.10	–	–
42	51	John Nuveen & Co. Incorporated (C)	15,892	12,287	3,605	15,871	1.50	–	41
43	49	Pershing & Co. Inc. (C)	15,625	8,560	7,065	16,423	5.60	309	869
44	38	Dain, Kalman & Quail, Inc. (C)	15,282	11,701	3,581	20,759	6.56	71	67
45	54	Spencer Trask & Co. Incorporated (C)	14,969	9,831	5,138	15,330	1.90	459	94
46	64	Halsey, Stuart & Co. Inc. (C)	14,734	14,734	–	12,386	1.30	–	459
47	47	The Ohio Company (C)	14,497	14,497	–	17,149	3.37	55	32
48	63	B. C. Ziegler and Company (C)	13,689	13,689	–	12,548	0.80	–	–
49	56	SoGen-Swiss International Corporation (C)	13,457	9,457	4,000	14,800	3.00	–	–
50	NA	Asiel & Co. (P)	13,338	13,338	–	13,271	0.82	659	272

*As of 12/31/74 or closest available date. In most cases, figures for both 1974 and 1973 are unaudited. (C) Corporation. (P) Partnership. – None. NA – Not Available. Δ Pro forma.
■ Not comparable due to merger or change in company status. □ Senior-term debt, not subordinated liabilities. †† For Oppenheimer & Co., Prior to restructuring of company on 3/1/75.
† 40 days or older. ▲ Equity capital includes subordinated borrowings from persons who are also major stockholders of the corporation.
(H) Holding Company. Related parent companies of: Merrill Lynch, Pierce, Fenner & Smith Inc.; E.F. Hutton & Company Inc.; Paine, Webber, Jackson & Curtis Incorporated; Donaldson, Lufkin & Jenrette Securities Corporation.

Top 100 Underwriting Firms in Order of Capital Position

RANK 1974	RANK 1973		Total Capital Position	1974* Equity Capital	1974* Subordinated Liabilities	1973 Total Capital Position	1974* Ratio of Aggregate Indebtedness to Net Capital	Fails 30 Days or Older 1974	Fails 30 Days or Older 1973
			(000 Omitted)					(000 Omitted)	
51	53	Piper, Jaffray & Hopwood Incorporated (C)	$ 13,274	$ 13,039	$ 235	$ 15,334	5.20	$ [illegible]	[illegible]
52	62	Prescott, Ball & Turben (P)	12,480	4,488	7,994	12,623	3.25	3	[illegible]
53	42	Edwards & Hanly (P)	12,313	2,242	10,071	18,854	7.05	181	[illegible]
54	57	Josephthal & Co. (P)	12,167	10,973	1,194	14,673	3.74	293	[illegible]
55	41	S. D. Securities, Inc. (C) **	12,000	12,000	—	19,500	0.40		
56	61	Bruns, Nordeman, Rea & Co. (P)	11,203	8,865	2,338	13,295	5.74		[illegible]
57	81	Mitchell, Hutchins Inc. (C)	11,015	7,425	3,590	9,927	2.63		1
58	50	M. A. Schapiro & Co., Inc. (C)	11,000	11,000	—	16,300	0.23		
59	55	J. C. Bradford & Co. (P)	10,618	10,618	—	15,299	5.07	9	[illegible]
60	74	William D. Witter, Inc. (C)	10,498	9,923	575	10,500	2.17		
61	58	Stern, Lauer & Co. (P)	10,354	8,904	1,450	14,533	0.81	732	[illegible]
62	72	Herzfeld & Stern (P)	10,334	10,334	—	10,735	7.06	30	[illegible]
63	76	Dillon, Read & Co. Inc. (C)	10,304	10,304	—	10,280	4.00	171	[illegible]
64	78	First Manhattan Co. (P)	10,100	10,100	—	10,205	2.55		
65	73	Nomura Securities International, Inc. (C)	9,983	9,983	—	10,588	NA	82	[illegible]
66	79	Loewi & Co. Incorporated (C)	9,640	8,890	750	10,138	2.10	106	[illegible]
67	71	Advest Co. (P)	9,428	3,936	5,492	10,779	8.6	40	511
68	70	Rauscher Pierce Securities Corporation (C)	9,416	6,207	3,209	10,927	7.14	38	159
69	84	Faulkner, Dawkins & Sullivan, Inc. (C)	9,207	5,582	3,625	9,105	1.20	19	
70	80	B. C. Christopher and Company (P)	9,024	8,415	609	10,048	4.32	39	[illegible]
71	75	Bateman Eichler, Hill Richards, Inc. (C)	8,969	7,666	1,303	10,334	4.45	11	1
72	82	Fahnestock & Co. (P)	8,951	7,951	1,000	9,831	5.87		
73	83	Mabon, Nugent & Co. (P)	8,870	8,870	—	9,223	1.19	746	1,118
74	102	Boettcher & Company (P)	8,517	8,517	—	7,520	3.91	21	21

75	66	Wood, Struthers & Winthrop Inc. (C)	8,269	4,677	3,592	11,469	3.00	1/2	177
76	52	William Blair & Company (P)	8,020	8,020	* —	15,413	1.80		
77	93	Tucker, Anthony & R.L. Day (P)	7,786	7,546	240	7,955	5.63	6	269
78	100	Arnhold and S. Bleichroeder, Inc. (C)	7,741	7,741	—	7,646	1.16	NA	22[illegible]
79	114	UBS — DB Corporation (C)	7,664	7,664	—	6,137	0.62	13	88
80	104	Robert W. Baird & Co. Incorporated (C)	7,491	6,985	506	7,345	2.21	31	41
81	65	Reinholdt & Gardner (P)	7,452	5,059	2,393	11,557	5.08	14	44
82	96	The Robinson-Humphrey Company, Inc. (C)	7,392	7,042	350	7,870	6.18	9	24
83	87	Ernst & Co. (P)	7,237	7,237	—	8,842	3.04	63	21
84	86	Butcher & Singer (P)	7,139	7,139	—	8,919	5.00	7	95
85	92	Sutro & Co. Incorporated (C)	7,040	3,150	3,890	8,345	5.26	915	80
86	89	Wheat, First Securities, Inc. (C)	7,031	2,546	4,485	8,548	5.03	18	14
87	68	Wheeler, Munger & Co. (P)	7,028	7,028	—	11,139	0.40		1
88	85	Bacon, Whipple & Co. (P)	6,625	6,625	—	8,941	1.93		1
89	97	Rotan, Mosle Inc. (C)	6,538	5,612	926	7,812	7.20	1	93
90	110	McDonald & Company (P)	6,523	4,550	1,973	6,487	4.31	24	62
91	88	Moseley, Hallgarten & Estabrook Inc. (C)	6,447	2,212	4,235	8,700Δ	6.61	35	5
92	90	First Regional Securities, Inc. (C) Legg Mason/Wood Walker Divisions	6,423	2,230	4,193	8,545	4.60	77	217
93	113	ABD Securities Corporation (C)	6,401	6,401	—	6,275	0.80	50	
94	98	Folger Nolan Fleming Douglas, Inc. (C)	6,389	3,939	2,450	7,798	1.50		
95	91	Allen & Company Incorporated (C)	6,387	6,387	—	8,349	0.25		
96	109	Mesirow & Company (P)	6,253	5,408	845	6,530	1.69	51	50
97	117	Cyrus J. Lawrence Incorporated (C)	6,248	3,023	3,225	5,954	1.30		
98	95	Keefe, Bruyette & Woods, Inc. (C)	6,204	4,950	1,254	7,887	1.32	258	21
99	99	Howard, Weil, Labouisse, Friedrichs Inc. (C)	5,979	1,749	4,230	7,779	4.26	7	23
100	123	F. Eberstadt & Co., Inc. (C)	5,974	5,122	852	5,064	0.67		

*As of 12/31/74 or closest available date. In most cases, figures for both 1974 and 1973 are unaudited. (C) Corporation. (P) Partnership — None. NA — Not Available. ΔPro forma.
■Not comparable due to merger or change in company status. ■■Parent company of Second District Securities Co., Inc.

10 Largest Publicly Held Security Firms

A Statistical Comparison (000 omitted)

THE 1974 RECOVERY TREND in Wall Street was mirrored in the results of many of the ten major publicly owned companies even though the comeback did not materialize until the latter part of the year. Sharpest per-share earnings gains were recorded by A.G. Edwards & Sons, First Boston Corp. and E.F. Hutton Group, in that order. Four of the ten, however, still wound up in the red.

	Bache	DLJ	A.G. Edwards	First Boston	E.F. Hutton	Merrill □ Lynch	Paine Webber	Reynolds	Shearson ▲ Hayden Stone	Dean Witter
Fiscal Year Ending	July 31	Dec. 31	Feb. 28	Dec. 31	Dec. 31	Dec. 28	Sept. 30	Dec. 31	June 30	Aug. 30
Latest 12 mths. Ended	Jan 31 △	Sept. 30 ■	Nov. 30	Dec. 31	Dec. 31	Dec. 28	Dec. 31	Dec. 31	Dec. 31	Nov. 30
Gross Revenue										
1974	$176,654	$ 73,014	$ 46,220	$ 98,590	$184,017	$809,600	$144,896	$ 91,350	$ 82,368 ▲	$141,944
1973	168,509	72,238	41,173	63,178	156,883	769,100	124,612	86,367	61,546	140,213
B/(W)	8,145	776	5,047	35,412	27,134	40,500	20,284	4,983	20,822	1,731
Net Income										
1974	($931)	($8,545)	$ 2,401	$ 7,183	$ 5,712	$ 37,500	($407)	$ 3,145	($799) ▲	$ 2,034
1973	(2,111)	3,316	876	3,101	4,885	36,700	(2,463)	4,003	(1,749)	3,386
B/(W)	1,180	(11,861)	1,525	4,082	827	800	2,056	(858)	950	(1,352)
Earnings Per Share										
1974	($ 13)	($1.11)	$ 1.51	$ 2.30	$ 1.23	$ 1.04	($ 07)	$ .72	($.32) ▲	$ 49
1973	(29)	.40	.56	.98	1.05	1.02	(.46)	.91	(.59)	81
% Return on Gross										
1974	—	—	5.2%	7.3%	3.1%	4.7%	—	3.4%	—	1.4%
1973	—	4.6%	2.1%	4.9%	3.1%	4.6%	—	4.6%	—	2.4%
% Return on Equity										
1974	—	—	14.0%	12.2%	9.1%	8.1%	—	5.8%	—	3 0%
1973	—	5.6%	5.6%	5.3%	8.2%	8.1%	—	7.2%	—	5 1%
1974										
Avg. Subordinated Borrowings	$ 23,985	$ 900	$ 5,116	$ —	$ 33,257	$ 36,000	$ 23,940	$ 542	$ 25,204	$ 18,464
Avg. Stockholders Equity	98,579	54,437	17,170	59,011	62,738	463,110	60,549	54,279	24,079	67,535
1973										
Avg. Subordinated Borrowings	$ 20,178	$ 2,900	$ 3,034	—	$ 25,157	$ 38,000	$ 22,960	$ 520	$ 15,987	$ 18,652
Avg. Stockholders Equity	101,250	58,899	15,618	$ 58,004	59,408	450,677	61,147	55,925	20,933	66,112
Price Range										
1974	5¼-2¾	5¾-2	5½-3⅛	15½-7½	9⅜-4⅞	15⅛-6¼	5½-1⅝	10¼-3⅞	2⅞-1⅛	8½-4⅛
1973	10⅜-3¾	10½-4½	9⅛-3¾	32-14	18⅞-6¼	32¾-12⅞	9½-3½	18½-7⅞	4¾-1⅝	18⅛-6⅛
Last Price 2/28/75	5⅛	4	8⅜	19¼	12⅛	15⅛	4⅜	9⅝	3¾	9½
Current Indicated Div.	—★	—★	.30	.75•	.48	.56	—	.50	—	.40
Current Yield	—	—	3.6%	3.9%	4.0%	3.7%	—	5.2%	—	4.2%
P/E	—	—	5.5	8.4	9.9	14.7	—	13.4	—	19.4

△ Amounts indicated are for the periods ended Jan 31 1975 and Jan 31 1974

□ Restated to include operations of Family Life Ins Co acquired Nov 1974 on a pooling of interest basis

▲ Merger of Shearson Hammill & Co incorporated into Hayden Stone Inc was effective in Sept 1974 The merger into Shearson Hayden Stone was accounted for on a purchase basis

■ Latest published information is as of Sept 30, 1974 The co has announced that its loss for the year ended Dec 31, 1974 would amount to about $11,500,000

★ Dividend payments have been discontinued The decision about future dividends is being deferred

• No indicated dividend, amounts shown are those paid in 1974

Research prepared by E. F. Hutton

Question No. 7

Another alleged advantage is the ability of foreign banks to do business in more than one State Yet, if a State has determined that it wants to encourage foreign banks to do business within its borders and doesn't care whether such banks may also be doing business in another State, then why should the Federal government be concerned?

Question No. 8

Again, on the branching question, it has been suggested that, for all intents and purposes, U.S. banks through Edge Corporations, loan production offices, and so forth, are actually doing business in a variety of ways on an interstate basis and that there really is no competitive disadvantage vis-a-vis their foreign competitors. In other words, when we talk about multi-State operations, when we compare apples to apples, are not the U.S. banks and the foreign banks on a par with each other?

ANSWERS: It is felt that these questions would best be answered in the context of a general discusssion concerning the multi-State operations of foreign banks.

Federal Restrictions on Multi-State Banking. Because of the McFadden Act, national and State member banks are unable to establish branches outside of their home State of operations. State law restrictions serve to limit non-member banks to the same ground rules. Because of the Bank Holding Company Act, any company controlling one or more banks in a given State (any such company hereinafter being referred to as a "bank holding company") is unable to acquire more than a 5 per cent voting share interest in another bank located outside of such State, unless the receiving State enacts a law specifically allowing such acquisition. To date, only Maine has enacted such a statute (effective in 1978), which statute depends on a Maine bank being given reciprocal privileges in another State.

Unlike their domestic counterparts, foreign banks have been able to establish branches and agencies in more than one State. This

ability derives from four basic factors: (1) the branching powers of foreign banks are determined by foreign law and not federal or State law; (2) since foreign banks are ineligible for membership in the Federal Reserve System imposition of McFadden Act restrictions through Federal Reserve membership is not possible; (3) branches and agencies of foreign banks are not defined as "bank" subsidiaries under the BHCA, and are thus not subject to the multi-State banking prohibitions of that legislation; and (4) key commercial States have enacted specific legislation permitting entry for foreign banks only. Many foreign banks have taken advantage of this opportunity by establishing branches and agencies in New York and California, and, increasingly, in Illinois. Also, several foreign banks have organized subsidiaries in one State, usually New York or California, and established branches or agencies in additional States. Table 17 in Governor Mitchell's testimony of January 28, 1976 sets forth the multi-State operations of foreign banks in the U.S.

It has been argued that the lack of federal regulation over the multi-State branch and agency operations of foreign banks does not really give foreign banks a competitive "multi-State advantage" over domestic banks and does not really require any form of federal scrutiny, since each State has the right to prohibit foreign bank entry. This argument is usually supported on the following grounds: (1) domestic banks have already established a multi-State presence through the establishment of loan production offices, Edge Act Corporations, and nonbanking affiliates in other States; (2) foreign banks are principally concerned

with conducting international banking operations on a multi-State basis, similar to that conducted by the multi-State Edge Act Corporation subsidiaries of large domestic banks (foreign banks are prohibited by law from establishing such subsidiaries), and it is in the national interest to encourage their wider participation in such activities; (3) the McFadden Act and Bank Holding Company Act restrictions were principally designed to give each State the right to determine whether it wanted to permit an out-of-State bank or bank holding company to enter and not to *per se* prohibit multi-State operations; and (4) from a public policy standpoint, the existing multi-State restrictions are anticompetitive and conducive to the creation of local monopolies.

While it may be difficult to quantify any "multi-State" advantage that foreign banks have vis-a-vis large domestic banks, attempts to draw parallels with the "interstate operations" of domestic banks are unpersuasive since Edge Corporations and nonbank affiliates of bank holding companies cannot engage in domestic commercial banking operations and they are, in any event, subject to extensive federal regulation by the Board. Symmetry would thus call for similar federal regulation of branch and agency operations and for a regulatory structure that would afford foreign banks the opportunity to organize Edge Act Corporations.

The fact that foreign banks are substantially engaged in international banking activities does not argue for State control; on the contrary, it argues for federal regulation since these international trade activities are primarily matters of national concern and interest.

It is significant to note in this regard that parallelism again calls for federal regulation since large domestic banks for the most part conduct their international banking operations through federally-chartered and regulated Edge Act Corporations, which were created by the Congress to promote the foreign trade and commerce of the U.S.

To view the McFadden Act and Bank Holding Company Act as being intended to protect only States' rights is to take too narrow a view of the purposes of such legislation. Congress has always been concerned with preventing the development in the United States of a highly concentrated national banking system. Simply stated, the States lack the jurisdiction, ability, and interest to assess the effects of multi-State banking operations on the national economy and the nation's banking system; their task is made especially difficult by the fact that branch and agency resources can and are freely transferred across State and national boundaries. No one State can determine the true competitive impact of a foreign bank that has multi-State offices; a national perspective is instead required to access the interstate that is national, operations of foreign banks. This can only be accomplished if a single federal authority is given jurisdiction over all branch and agency operations.

While Congress may eventually find federal multi-State banking restrictions to be anticompetitive and at odds with modern banking technology, it has not yet done so. Accordingly, it seems unreasonable to continue to grant a rapidly growing class of commercial banking institutions a perpetual exemption from multi-State restrictions, as this will only serve to multiply over time any competitive advantages that may develop.

Question No. 9

Does your call for Federal examination of foreign affiliates imply that current State regulation in this regard is inadequate?

ANSWER: At the present time one or more of the federal bank authorities (the Comptroller of the Currency, the Board and the FDIC) supervise, regulate and examine the banking operations of banking institutions in this country that account for 98 per cent or more of all deposits. Branches and agencies of foreign banks are virtually the only banking institutions exempt from this federal regulation.

It seems reasonable to assume that the overall purpose of Federal examination, regulation and supervision of commercial banks in the United States is to maintain a sound, competitive and effective banking system. To do so, it logically follows that every significant commercial banking sector should be included and should be subjected to uniform standards of regulation. While branches and agencies have small domestic deposit-taking activities, they do play significant roles in international trade financing, commercial lending, and foreign exchange and money-market operations. Should a branch or agency of a foreign bank in this country have to close its doors, it would not only affect depositors (at a branch) but also other U.S. creditors of the branch or agency, including specifically many domestic banks, and would undoubtedly have an effect on the nation's financial markets. Given the multi-State operations of many foreign banks, these effects could be felt throughout the country.

Federal regulation of these entities could not, of course, prevent problems that might flow from a parent foreign bank's financial problems. A federal authority regulating all of the branch and agency operations of a foreign bank in this country would, however, be better able to determine whether a foreign bank was experiencing problems since it would be more likely to have supervising relationships with foreign bank authorities, would have a total view of branch and agency operations i.e., these conducted in several States and would be able to act more quickly and effectively to protect the interests of <u>all</u> United States creditors. In addition, federal regulation would permit better appraisal of the broader national and international implications of the various activities of foreign banks in the U.S. and would be more likely to take into account foreign policy considerations when necessary. Having federal regulation would also encourage the training of examiners and supervisory personnel paritcularly skilled in international banking, such as those that currently examine and supervise Edge Corporations, and would thus serve to reduce the regulatory burden assumed by the individual States in this area.

In addition, federal examination of State branches and agencies by the Board could aid in the conduct of domestic monetary policy since it would give the Board greater knowledge about the effects of its monetary policy actions in national and international financial markets.

Question No. 10.

Is there any evidence at the present time that apart from growth that U.S. affiliates of foreign banks are somehow abusing the opportunities available to them under the present system?

There is nothing to indicate that foreign banks are "abusing" their powers in the sense that they are using the opportunities available to them under the present system to engage in any improper or unsound banking practices. On the contrary it has been the experience of the Board that foreign banks operating in the United States have scrupulously complied with existing U.S. laws and regulations and have been generally cooperative in their dealings with the Board.

These banks are, however, making full use of the existing regulatory structure to maximize their competitive position in the United States vis-a-vis domestic banks. This has largely taken the form of establishing multi-State banking operations. About 45 foreign banks now operate banking facilities in two or more States and of these approximately 23 operate in at least three States. These networks undoubtedly give foreign banks some competitive advantage over U.S. banks which are generally prohibited from banking across State lines. Domestic banks can only conduct a banking operation outside their home State through Edge or Agreement Corporations which are proscribed from conducting any purely domestic business and often have considerably less power than the branches or agencies permitted to foreign banks on a multi-State basis. Foreign banks also have certain other advantages vis-a-vis their principal U.S. competitors, such as lack of reserve requirements, which enhance their competitive position.

While foreign banks can not be criticized for taking advantage of the opportunities permitted under the present structure, no public purpose appears to be served by permitting them a regulatory advantage over indigenous institutions.

Question No. 11

It has been suggested that reciprocity should be judged differently for less developed countries than for the industrialized countries. Would you please comment?

Answer. The term, "reciprocity," has been given a number of different interpretations in recent discussions of international banking regulation. One interpretation refers to entry. New York State, for example, does not license branches of Canadian banks because New York banks cannot establish banking offices in Canada. However, Canadian banks have agencies and trust companies doing various types of banking business in New York and New York banks own leasing, factoring, and other types of companies doing bank-related business in Canada. Less-developed and smaller industrialized countries have found it difficult to afford unlimited entry for foreign banks because it could mean that their own indigenous institutions would be overwhelmed by the financial resources and technical superiority of multinational banks of major financial and industrial countries. To some degree this problem has been met by joint ventures with foreign banking institutions holding minority interests in local institutions.

To deal with the issue of entry on a practical level and to recognize special circumstances, the legislation proposed by the Board provides that the Comptroller of the Currency, in acting upon an application, take into consideration the views of the Departments of State and Treasury in addition to the Board. This approach would appear to provide the flexibility necessary to deal with issues of entry.

Another interpretation of "reciprocity" has to do with banking powers in host countries. Some Western European banks, for example, contend that they should be able to exercise the same banking powers in the United States as in their home country, despite the fact that home country powers are broader than those available to domestic banks in the United States. In the Federal Reserve's proposed Foreign Bank Act, the Board sought to establish a national policy on foreign banks operating in the United States based on the principle of non-discrimination. This principle requires national treatment for banks operating outside their home country. Thus, the Federal Reserve proposal seeks to provide foreign banks with the same opportunities to conduct activities in this country as are available to domestic banking institutions and to subject them to the same rules and regulations. A standard of nondiscrimination, or national treatment, has generally been accepted by the authorities of major financial countries as a practical standard for international regulatory policy.

Question No. 12.

Looking ahead, how do you see the growth of foreign banking activity in this country? Will it continue to be mostly oriented toward large commercial and international business or do you see an increasing trend toward a retail banking operation directed toward individuals?

The principal reason foreign banks have entered the United States has been to service the needs of multinational corporations (both U.S. and foreign-based) which tend to be customers of these banks and to accommodate home country customers who do business in the United States. Servicing these customers is likely to remain the primary business of foreign banks operating in the United States.

Some foreign banks, however, in an effort to diversify their business and gain a more stable deposit base are likely to develop a significant retail business in the United States. In fact, this development has already occurred to some extent. Two Japanese banks and one British bank have substantial retail operations in California, and other foreign banks seem to be expanding their retail business there. This development has also taken place to a lesser extent in New York State. While the U.S. retail business of foreign banks is likely to grow in both absolute and proportional terms, it in all probability will continue to be a distinctly secondary aspect of the U.S. business of these companies.

In regard to the above, it should be noted that the trend of the operations of foreign banks in this country seems to be following

that of U.S. banks abroad. Several U.S. banks have moved to establish retail operations in certain foreign countries where they have been operating for some time. However, this business has remained secondary to their main business of servicing U.S. and other multinational companies.

13. In his testimony, Mr. Leonard Lapidus of the New York State Banking Department indicated that affiliates of foreign banks operating in the United States had, for the most part, responded very cooperatively to the Fed's request several years ago of voluntary compliance with special reserve requirements. Would you please explain the nature of your request in this regard and the experience with voluntary compliance over the past few years?

Answer: To provide an equitable element of monetary control over the activities of foreign-owned U.S. banking institutions, the Federal Reserve Board in June 1973, during a period of increasingly rapid domestic inflation and monetary restraint, requested that all nonmember banking offices of foreign banks maintain reserves against increases in the following types of liabilities:

1. single-maturity time deposits of $100,000 or more issued to parties in the United States or parties in foreign countries except banks or directly related institutions; and
2. net balances due to foreign offices of directly related institutions, net time deposits due to other foreign banks, and net borrowings from other foreign banks.

Increases in outstanding amounts of the liabilities were measured relative to base period levels in May 1973.

The reserve rate applicable to single-maturity time deposits was initially three percent, which was equal to the marginal reserve requirement applied at that time to CDs issued by member banks of the

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Federal Reserve System as specified in Regulation D. Subsequently, the foreign banks were asked to hold reserves at a six percent rate in keeping with an increase in the marginal reserve applied to member banks. The marginal rate on CDs of member banks was later reduced in stages, and the request of foreign banks was similarly modified and finally eliminated in December 1974.

The reserve rate applicable to increases in net liability positions with foreign banks was initially eight percent, which was identical to the reserve rate applied to member banks' total net borrowings from their own foreign branches and from other foreign banks, as specified in Regulations M and D, respectively. In May 1975, the rate applied to member banks was reduced to four percent, and the request made of foreign banks was similarly reduced.

Reserves maintained voluntarily under the program are deposited with member banks, which in turn immediately redeposit the funds, in full, with the appropriate Federal Reserve Bank. To avoid duplication of reserves, the amount of reserves to be maintained voluntarily against increases in net borrowings from foreign banks pursuant to the Board's request is reduced by the amount of reserves maintained against that increase under mandatory state reserve requirements.

Since the monetary effect of a reduction in a net asset position is identical to the effect of an increase in a net liability position, in those few cases in which a U.S. office of a foreign bank

Question 13

had a net asset position with banks abroad in the base period, instead of a net liability position, the reserve request applied to reductions in that net asset position as well.

Compliance under the voluntary program has, with few exceptions, been excellent. As of March 24, 1976, Federal Reserve Banks were holding $10 million that represented funds deposited at member banks by foreign banks and then redeposited by the member banks with the Reserve Banks.

14. In his testimony, Lord O'Brien indicated that the prospect of retaliation by other governments to enactment of the Fed bill would be very low and that, indeed, it would not be much different even if the bill contained no grandfathering? Would you please comment?

Answer: Lord O'Brien's comments appear valid for financial centers like London where U.S. banks conduct an essentially offshore rather than local business. However, the threat of retaliation comes from countries where U.S. banks are engaged in local banking and financial activities including the provision of local funds to U.S. corporations operating there. A number of countries in Continental Europe figure importantly in this category. To operate in these countries, U.S. banks must obtain permission to establish branches and subsidiaries and to invest in affiliated companies, and must operate in accordance with whatever rules are laid down by the local authorities as well. In many of these countries, the local bank regulatory authorities are sensitive to the treatment that their country's banks receive in foreign markets, including the United States. Not only could their willingness to approve applications for establishing branches and for investments in subsidiaries and affiliates of U.S. banks be affected; but also existing operations could be subject to new restrictions.

Scenario

Gentlemen, assuming Congress decides that it does need to establish a better Federal handle over foreign banking in the United States, why wouldn't the following adequately meet our public policy objectives?

1. Extend the dual banking system to foreign banks by granting them a Federal licensing or chartering option under the supervision of the agency which regulates national banks
   Present restrictions of nationality of directors could be waived.
   As with national banks, this Federal option might carry with it mandatory Federal membership.
   Similarly, as with national banks geographic location would be left to the Federal regulator.

ANSWER: These recommendations parallel those made in sections 11-13 and 18 of S.958. A provision allowing a foreign bank to own an Edge Act Corporation should also be included in any such proposal in order to give foreign banks the same opportunities as domestic banks to conduct /international banking operations in several states (section 10 of S.958).

2. Leave the States free to charter foreign banking operations as they presently do with Fed membership purely voluntary.

3. Give the Fed, perhaps, a more direct handle, if appropriate, over foreign bank reserves.

ANSWER: The Board's foreign bank proposal would require that all agencies, branches, and banking subsidiaries of foreign banks or foreign bank holding companies with worldwide assets in excess of $500 million become members of the Federal Reserve System.

The Board considered, as an alternative to the provision in S.958, recommending that all agencies, branches and banking subsidiaries maintain reserves comparable to those required of Federal Reserve member

banks but not to require Federal Reserve membership. It rejected that alternative because membership would ensure that all Federal Reserve regulations used to effect monetary policy would be applied automatically to all U.S. banking offices of foreign banks. Thus, as instruments of monetarv control that do not function through reserve requirements are used, such as the Regulation Q ceilings on interest rates, and as new instruments are developed, no special legislation would have to be enacted and no voluntary programs of moral suasion would have to be devised in order to achieve roughly comparable monetary control over U.S. offices of foreign banks.

In addition, compulsory membership would insure that foreign banks are subject to the same examinations, supervisory and regulatory controls as their primary U.S. competitors, including the provisions of the Glass-Steagall Act which are specifically tied to membership. Moreover, the Board's examination authority over foreign operations would give it valuable knowledge about the effects of its monetary policies in national and international money markets.

If Congress should decide against compulsory membership, then it is not enough to extend only reserve requirements to foreign bank operations in the U.S. In addition, this authority should extend to interest rate controls and any other regulations imposed on member banks that the Board deems necessary for the implementation of domestic monetary policy. The Board furthermore believes that if

branches and agencies maintain Federal Reserve reserve requirements they should also have access to Federal Reserve clearing and discount facilities in order to afford them national treatment. For the reasons discussed above, it would also be important to give the Board examination authority over such operations.

4. If need be, superimpose a Federal registration and reporting requirement over foreign banks to permit the Federal government to better monitor their activities; then, to the extent such registration or reporting requirements indicate problems arising, legislative relief could then be sought, as appropriate.

As recommended in section 25 of S.958, the Board believes that a formal licensing procedure administered by the Secretary of the Treasury would be the best method of monitoring foreign bank entry into the United States and assuring that our national interests were being served. A registration and reporting requirement would, however, at least provide the framework for monitoring foreign bank activity in the United States and for the eventual development of a national policy. This would thus appear to be a minimum requirement in any federal foreign bank proposal.

5. Make FDIC insurance available to any foreign bank office which accepts domestic deposits with appropriate safeguards to protect the insurance fund.

As explicated more fully in the answers to questions number 2 and 3 of Senator McIntyre's letter of March 25, 1976, national treatment requires that foreign bank offices that accept deposits at least be given the option of obtaining insurance. This would also be desirable from a public policy standpoint in that it would afford protection to retail depositors at those offices.

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The FDIC fund could be protected either through building in additional regulatory and supervisory safeguards in the FDIC Act to deal with the non-incorporated status of branches and agencies or by simply not subjecting the fund to any liability by requiring foreign banks to post a separate security bond, in lieu of insurance, to cover deposits (the approach suggested by Congressman Rees in H.R. 12103).

6. Forget about grandfathering securities affiliates of foreign banks. Perhaps red flag them not to expand their operations pending our resolution of the Glass-Steagall issue with the expectation that foreign securities affiliates might be able to expand or might have to contract their operations, depending upon what is permissible to U.S. banks.

(See answer to question number 6 of Senator McIntyre's letter of March 25, 1976, for a full discussion of securities affiliates of foreign banks and alternative ways of dealing with such affiliates under foreign bank legislation.)

The principal problem with this proposed treatment of securities affiliates of foreign banks is that it would leave them in a sort of regulatory limbo for an incalculable period of time since it is contingent upon the resolution of difficult and controversial legislative issues. As recommended in S.958, it would seem best to grandfather their operations now; but also give the Board continuing supervisory power to review these activities and require contraction or termination if certain specific adverse effects, in fact, occurred e.g., the development of conflicts of interest or unfair competitive practices.

7. Forget about grandfathering in terms of multi-state operations, recognize the fact that at the present time at least U.S. banks are not at any real competitive disadvantage vis-a-vis foreign banks by virtue of multi-state operations, particularly when comparing apples to apples, and, therefore, let the States continue to invite foreign banks -- if they want to -- regardless of whether the foreign banks may be doing business elsewhere.

   There is precedent for this already, is there not, in terms of multi-state reciprocity under the Bank Holding Company Act.

The issues presented in this question are dealt with at length in the answer to questions 8 and 9 of Senator McIntyre's letter of March 25, 1976.

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 7, 1976

The Honorable Adali E. Stevenson
United States Senate
Washington, D.C. 20510

Dear Senator Stevenson:

As requested in your letter of February 6, I am pleased to enclose responses to questions that you asked in connection with the hearing on S. 958, the Foreign Bank Act of 1975, which was held on January 28.

I hope this information will be helpful to you.

Sincerely yours,

Arthur F. Burns

Enclosure

FEDERAL RESERVE SYSTEM

THE BANK OF TOKYO, LTD.

Order Denying Acquisition of Tokyo Bancorp International (Houston), Inc.

The Bank of Tokyo, Ltd., ("Applicant"), Tokyo, Japan, a foreign bank holding company within the meaning of § 225.4(g)(1)(iii) of the Board's Regulation Y, has applied for the Board's consent, under section 4(c)(9) of the Bank Holding Company Act and § 225.4(g)(2)(iv) of the Board's Regulation Y, to acquire all of the voting shares of Tokyo Bancorp International (Houston), Inc., ("TBI"), Houston, Texas.

Applicant is a Japanese commercial bank with total assets of approximately $19.9 billion and operates branches or agencies in 19 countries.1/ Applicant, which became a bank holding company as a result of the enactment of the Bank Holding Company Act of 1956, is a grandfathered multi-State bank holding company with banking subsidiaries in New York and California.2/ Applicant also has an agency each in New York, Los Angeles, and San Francisco, as well as a branch each in Portland, Oregon, and Seattle, Washington.3/

1/ All banking and financial data for Applicant are as of March 31, 1974.
2/ Bank of Tokyo Trust Co., New York, New York, with deposits of approximately $1.5 billion is the thirteenth largest commercial bank in the State of New York. Bank of Tokyo of California San Francisco, California, with deposits of approximately $914 million is the eighth largest commercial bank in California The preceding data are as of December 31, 1974.
3/ Applicant also has a 4.9 per cent share interest in Chicago-Tokyo Bank, Chicago Illinois, a State-chartered bank, for which prior consent of the Board was not required under § 3(a)(3) of the Act. Applicant also has a 5 per cent interest in Nomura Securities International, Inc., New York, New York, acquired pursuant to section 4(c)(6) of the Act.

TBI would engage *de novo* in a wide variety of international and foreign banking activities usual in financing international commerce, including providing letters of credit and acceptance facilities; the negotiation and collection of checks, drafts and other means of payment payable abroad; foreign exchange services; and working capital loans to domestic importers and exporters. As part of its business, TBI would also receive so-called due-to-customer accounts. From information submitted to the Board, it appears that TBI's due-to-customer accounts are similar to credit balances received by New York Investment Companies[4/] and would serve many of the same functions as demand deposits in commercial banks and Edge Act Corporations.[5/]

In general, TBI would compete with other financial institutions in Houston, including the international banking departments of the larger Texas banks and Edge Act Corporation subsidiaries of other banks. Applicant cannot acquire a majority interest in an Edge Act Corporation due to restrictions on foreign ownership in the provisions of the Edge Act,[6/] and cannot open a banking branch or agency in Houston because of specific prohibitions in the Texas Constitution.[7/]

Section 4(c)(9) of the Act provides that the prohibitions of Section 4 shall not apply to the investments or activities of foreign bank holding companies that conduct the greater part of their business outside

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4/ Companies organized under Article XII of the New York State Banking Law.
5/ Corporations organized under Section 25(a) of the Federal Reserve Act which are engaged in international or foreign banking or other international or foreign financial operations.
6/ 12 U S C 619.
7/ Article 16, § 16 of the State of Texas Constitution.

of the United States, if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of the Act and would be in the public interest. In § 225.4(g)(2)(iv) of Regulation Y, the Board has determined that a foreign bank holding company may, with the Board's consent, own or control voting shares of any company principally engaged in the United States in financing or facilitating transactions in international or foreign commerce.

In the Board's judgment, Congress intended that section 4(c)(9) of the Act be primarily used to prevent the nonbanking prohibitions of section 4 of the Act from unnecessarily interfering with the essentially foreign activities and shareholdings of foreign bank holding companies. The subject proposal does not involve a question of the extraterritorial impact of the Act on the operations or investments of Applicant, but rather involves the question of whether Applicant may, with the Board's consent, organize a domestic corporation to engage in international and foreign banking and financing activities under section 4(c)(9) of the Act. With respect to such investments in domestic corporations under section 4(c)(9) of the Act, the Board is particularly concerned that such investments be consistent with the purposes of the Act and not give foreign banking institutions competitive advantages in the United States over domestic banking institutions.[8/]

8/ See the Board's Order of January 9, 1974 (1974 Bulletin 139) denying Lloyds Bank Limited's proposed retention of its investments in Drake America Corporation and Drake America Corporation (P.R.); the Board's Order of December 6, 1973 (1974 Bulletin 58) denying The Royal Trust Company's application to permanently acquire Information Systems Design, Inc.; the Board's Order of September 28, 1972 (1972 Bulletin 940) denying Banco di Roma's proposed retention of its investment in Europartners Securities Corporation; and the Board's Order of February 7, 1972 (1972 Bulletin 312) denying Banque Nationale de Paris' proposed retention of its investment in Indumat Equipment Corporation.

From the scope of banking and financing activities applied for in this application and the fact that TBI would accept credit balances which could serve many of the same functions as deposits in international financing, it appears to the Board that TBI would essentially function in Houston as an incorporated international banking agency of applicant. While TBI in the Board's judgment is not necessarily a "bank" within the meaning of section 2(c) of the Act, TBI would nevertheless serve as another organizational link in Applicant's chain of interstate commercial banking operations.

Section 3(d) of the Act generally prohibits bank holding companies from acquiring an interest in a banking organization outside of their State of principal banking operations unless affirmatively permitted by the laws of the receiving State. This provision was adopted as part of the original Bank Holding Company Act in order to halt the further multi-State expansion of certain holding companies then in existence. The only general exception to this prohibition and federal restrictions on multi-State branch banking 9/ is permission for United States banking organizations to conduct a limited multi-State international banking business through ownership of Edge or Agreement Corporations, 10/ both of which are specifically regulated as banking institutions by the Board under Federal law. While the Board believes that foreign banks such as Applicant should be permitted to own Edge Act Corporations and has so recommended to Congress, the Board does not believe that it was within the intent of Congress in enacting 4(c)(9) of the Act for the Board

9/ See 12 U.S.C. 36 for national banks, the restrictions of which are applied to State member banks under 12 U.S.C. 331.

10/ An "Agreement Corporation" is an international or foreign banking corporation operating pursuant to an agreement entered into with the Board under Section 25 of the Federal Reserve Act.

to use its broad discretionary authority under that section to authorize hybrid "nonbank" vehicles designed to permit the conduct of an international banking business on a multi-State basis outside of the explicit legal framework set up by the Congress in Sections 25 and 25(a) of the Federal Reserve Act. Consequently, the Board finds that approval would not be consistent with the purposes of the Bank Holding Company Act.

While approval of this application would result in the addition of another competitor in international banking in Houston, it appears that the international banking needs of the Houston area are being adequately served at the present time. Moreover, approval could lead to a competitive imbalance between TBI and its primary Edge Act Corporation competitors in Houston, since the activities proposed in the application are in some respects greater than those permitted Edge Act Corporations. While it may be feasible to define conditions that would limit the activities of TBI to virtually the equivalent of those permitted Edge Act Corporations, no exact equivalent is possible, as TBI would have certain inherent operating advantages--for example, it would be free from reserve requirements. In this regard, the Board believes that the effects of creating such a competitive imbalance between Edge Act Corporations and foreign-owned vehicles such as TBI are not in the public interest.

Applicant has pointed to the Board's approval under section 4(c)(9) of the Act of Banque Nationale de Paris' retention of French American Banking Corporation ("FABC"), a New York Investment Company,[11/] and Lloyds Bank

11/ Board Order of February 7, 1972 (1972 Bulletin 312).

Limited's retention of Balfour Williamson, Inc.[12/] as, in its judgment, precedents for the subject proposal. In the Board's judgment, the case of FABC and currently operating New York Investment Companies is distinguishable from the subject proposal in many respects. In particular, New York Investment Companies are organized pursuant to a specific provision of the New York State Banking Law, and their international and foreign banking and financing activities, including the receipt of credit balance accounts, are under the supervision of the New York State banking authorities.[13/] TBI is not being organized under a specific statutory provision created by the Texas legislature to provide for the conduct of international and foreign banking and financing activities, nor is it to be supervised by the Texas banking authorities. Rather, TBI is being organized as any other Texas nonbanking corporation under a general corporate charter. Moreover, TBI would not be regulated and supervised on a comparable basis with competing Edge Act Corporations and the international banking departments of Texas banks.

Lloyds' retention of Balfour Williamson, Inc. is also distinguishable from the subject case because from the record of that application, it appears that Balfour Williamson was engaged in a much more limited international financing business and did not maintain general credit balance accounts of the type proposed in this application.

12/ Board Order of January 9, 1974 (1974 Bulletin 139).
13/ See Article XII of the New York State Banking Law, Sec. 507, et seq.

Based on the foregoing and other considerations reflected in the record, the Board is unable to determine that the subject application would not be substantially at variance with the purposes of the Act and would be in the public interest. The application is therefore denied.

By order of the Board of Governors,[14/] effective May 30, 1975.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Assistant Secretary of the Board

[SEAL]

14/ Voting for this action: Chairman Burns and Governors Mitchell, Holland, and Coldwell. Voting against this action: Governor Wallich. Absent and not voting: Governors Sheehan and Bucher.

DISSENTING STATEMENT OF GOVERNOR WALLICH

I dissent from the Board's denial of the subject application. In my judgment, Applicant's proposal would not be substantially at variance with the purposes of the Bank Holding Company Act, and would be in the public interest. The establishment of TBI in Houston would clearly be pro-competitive, as it would bring the international banking and financial services and expertise of another large multinational bank to that rapidly growing area. This not only would promote an increased flow of international business into the Houston area, but also would, in this case, especially encourage and facilitate additional trade and investment between Japan and the United States.

In general, I believe the United States and its trading partners would benefit if each country were to make every effort to improve the access of foreign banks to its local and international banking markets. In this regard, I share my colleagues' hope that legislative action will be taken to permit foreign bank ownership of Edge Act Corporations. While I recognize my colleagues' concerns, in the absence of such legislation, I would use the Board's discretionary authority in section 4(c)(9) of the Act to overcome existing impediments to foreign bank entry that are ill-suited for the present international environment.

For the foregoing reasons, I conclude that the subject application should be approved.

May 30, 1975.

Question No. 1

Apart from the interests of certain foreign banks in investment subsidiaries and so-called New York Investment Companies, what types of "non-banking activities" do foreign banks presently conduct in the United States? In what states are such activities conducted and what is their scale? What investments, if any, do foreign banks with operations in the United States hold in commercial firms incorporated in the United States?

Answer: The Board's staff is unable to provide any such information with respect to foreign banks that are not currently subject to the Bank Holding Company Act since the Board has no supervisory authority over their U. S. operations. With respect to foreign banks that are already subject to the Bank Holding Company Act, it appears to date that except for the Japanese banks, which often have small (5 to 10 per cent) interests in Japanese nonbanking companies that have U. S. subsidiaries, most foreign banks have very few direct U. S. interests. Copies of Board orders under the Bank Holding Company Act dealing with nonbanking interests of foreign banks in the U. S. are enclosed.

FEDERAL RESERVE SYSTEM

LLOYDS BANK LIMITED

Order Approving Retention of Investment In
Balfour, Williamson, Inc., Export Credit and Marketing Corporation,
and Export Credit Corporation
and Disapproving Retention of Investment In
Drake America Corporation and Drake America Corporation (P.R.)

Lloyds Bank Limited, London, England ("Lloyds Bank"), has applied for the Board's permission to retain indirectly all of the voting shares of Balfour, Williamson, Inc. New York City ("BW"),1/ and to retain indirectly approximately 46.6 per cent of the voting shares of Export Credit and Marketing Corporation, New York City ("ECMC"), and of ECMC's wholly-owned subsidiaries Export Credit Corporation, New York City ("ECC"), Drake America Corporation, New York City ("Drake"), and Drake America Corporation (P.R.), New York City ("Drake P.R."), if Lloyds Bank becomes a bank holding company.2/

Lloyds Bank has received the Board's permission to become a bank holding company through the acquisition of up to

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1/ Balfour, Williamson, Inc., New York City, is a wholly-owned subsidiary of Balfour, Williamson & Co., Ltd., London, England, which in turn is a wholly-owned subsidiary of Lloyds & Bolsa International Bank, Ltd., London, England, which is wholly-owned by Lloyds Bank.

2/ Export Credit and Marketing Corporation, New York City, is a wholly-owned subsidiary of London America Finance Corp., Ltd., London, England ("LAFC"). Forty per cent of the outstanding voting shares of LAFC are owned by Lloyds & Bolsa International Bank, Limited, London, England, which is wholly-owned by Lloyds Bank. An additional 40 per cent of the outstanding voting shares of LAFC are owned by Industrial & Commercial Finance Corp., London, England, 15.6 per cent of whose voting shares are owned by Lloyds Bank. Consequently, Lloyds Bank indirectly owns approximately 46.6 per cent of Export Credit and Marketing Corporation, and its wholly-owned subsidiaries.

100 per cent of the voting shares of First Western Bank & Trust Company, Los Angeles, California. Upon consummation of that transaction, Lloyds Bank will be a foreign bank holding company within the meaning of § 225.4(g)(1)(iii) of Regulation Y.

BW is principally engaged in financing imports and exports to and from the United States. BW represents foreign buyers of goods manufactured or produced in the United States and temporarily finances their purchases through a line of credit or on open account. In some cases, BW performs a similar function between buyers and sellers within a foreign country or between two foreign countries. Pursuant to its financing the purchases of foreign buyers, BW will also often arrange directly the shipment of goods from the United States. BW also finances imports by United States firms and corporations from foreign manufacturers and suppliers. Import financing is normally done pursuant to a credit agreement between BW and the domestic purchaser. Such financing sometimes includes loans or credit for working capital purposes.3/

ECMC owns all of the issued and outstanding capital stock of ECC, Drake and Drake P.R.4/ ECMC is a holding company and does not actively engage in a trade or business for its own account.

3/ As a result of a loan default by two importer clients, BW is temporarily operating three small retail stores in the Boston area.
4/ ECMC also owns all of the issued and outstanding capital stock of Kimstone International Corporation, Ltd., a Canadian corporation ("Kimstone"); which engages in no activities in the United States. Lloyds may retain its indirect investment in Kimstone under § 2(h) of the Act.

ECC finances exports of goods manufactured in the United States to credit-worthy foreign buyers with credit terms of up to five years. Most of ECC's export transactions are insured by the Foreign Credit Insurance Association or through Eximbank guarantees.

Drake is an export management company which arranges the foreign sales of products manufactured in the United States by forming a foreign distribution network for such products. Drake takes nominal title to the goods and invoices its foreign agents or distributors at the manufacturer's cost plus a commission and interest on any credit extended. Drake's services principally consist of setting up and evaluating distribution networks, processing firm orders it obtains from foreign buyers with the manufacturer, and of expediting shipments for the manufacturer, thus, functioning, in effect, as a domestic manufacturer's export department. Although Drake occasionally arranges financing as an accommodation to foreign buyers, this activity is considered as incidental to its primary export management services.

Drake P.R. manages the export and distribution in Puerto Rico and other United States possessions of goods manufactured in the United States. The nature of its activities are identical to those of Drake described above..

Section 4(c)(9) of the Act provides that the prohibitions of section 4 shall not apply to the investments or activities of foreign bank holding companies that conduct the greater part of their business outside the United States, if the Board by regulation

or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of the Act and would be in the public interest.

In § 225.4(g)(2)(iii) of Regulation Y, the Board has determined that a foreign bank holding company may own or control voting shares of any company that is not engaged, directly or indirectly, in any activities in the United States except as shall be incidental to the international or foreign business of such company. This "incidental test" is also used by the Board to determine the permissible scope of investments and activities in the United States for Edge Act corporations under section 25(a) of the Federal Reserve Act and the Board's Regulation K and for domestic bank holding company investments or activities in the United States under § 4(c)(13) of the Bank Holding Company Act and § 225.4(f) of Regulation Y. In the Board's judgment, the activities of BW, except as noted below, and of ECC are consistent with the scope of activities permitted to Edge Act corporations under § 211.7(d)(1)(ii) of Regulation K[5/] and domestic bank holding companies under § 4(c)(13) of the Bank

5/ Section 211.7(d)(1)(ii) of Regulation K provides as follows: § 211.7(d): "It will ordinarily be considered incidental to the international or foreign business of a [Edge] Corporation for it to engage in the following transactions in the United States: (1) Finance the following types of transactions, including payments or costs (but not expenses in the United States of an office or representative therein) incident thereto: . . . (ii) the importation into or exportation from the United States of goods."

Holding Company Act and § 225.4(f)(1) of Regulation Y. Accordingly, in the Board's judgment the indirect investments by Lloyds Bank in BW and ECC are exempt under § 225.4(g)(2)(iii) of Regulation Y and are thus consistent with the purposes of the Act and in the public interest.

The Board's approval of the retention of Lloyds Bank of its investment in BW is, however, subject to the conditions that, within two years from the date as of which Lloyds Bank becomes a bank holding company, BW cease engaging in the activity of arranging directly the shipment of goods from the United States and BW cease operating three small retail stores in the Boston area, which BW is currently operating pursuant to a loan default by an importer client. Performance of these activities would give Lloyds Bank a competitive advantage over domestic bank holding companies. While an Edge Act corporation does not have the statutory power to engage in making working capital loans to importers, other banking and nonbanking subsidiaries of a domestic bank holding company could engage in making such loans and thus BW's performance of this activity under § 4(c)(9) of the Act would not be substantially at variance with the purposes of the Act and would be in the public interest.

In the Board's judgment, ECHC's investment activities as described by Lloyds Bank are consistent with the purposes of the Act and in the public interest, except as noted below, and so long as ECHC does not invest in more than 5 per cent of the voting shares, or acquire control over the management or policies, of any company except with prior Board approval.

The indirect investment by Lloyds Bank in the shares of ECMC's wholly-owned subsidiaries Drake and Drake P.R. are investments that would not be permissible for a domestic bank holding company under § 4(c)(8) of the Act since Drake and Drake P.R. engage in commercial nonfinancial activities, which are not closely related to banking or managing or controlling banks as to be a proper incident thereto. Lloyds Bank has sought an exemption for ECMC's investments in Drake and Drake P.R. under § 4(c)(9) of the Act and under § 225.4(g)(2)(iv) of Regulation Y on the basis that Drake and Drake P.R. principally engage in the United States in activities "facilitating" transactions in international or foreign commerce.6/ In the Board's judgment, however, the activities of Drake and Drake P.R. do not meet the conditions for exemption set forth in § 225.4(g)(2)(iv) of Regulation Y. The term "facilitating" is intended by the Board to cover international or foreign <u>banking</u> activities, such as those carried on by New York "investment companies,"7/ and is not intended

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6/ Section 225.4(g)(2)(iv) of Regulation Y provides, with prior Board consent, that a foreign bank holding company may own or control voting shares of any company principally engaged in the United States in "financing or facilitating transactions in international or foreign commerce." Since Lloyds Bank has indicated that Drake and Drake P.R. engage only incidentally in "financing transactions," exemption can only be sought under "facilitating transactions in international or foreign commerce."

7/ See the Board's Order of February 7, 1972, approving Banque Nationale de Paris' retention of its investment in all of the voting shares of French American Banking Corporation, a New York "investment company" chartered under Section XII of the New York State Banking Law (58 Federal Reserve Bulletin 312).

to include nonbanking activities such as the export management activities of Drake or Drake P.R. In the Board's judgment, Drake and Drake P.R. are essentially engaged within the United States in a domestic commercial business even though that business concerns international transactions.

The Board does not believe that an exception is otherwise appropriate since it does not appear the public benefits which are alleged for the retention of Drake and Drake P.R., namely the promotion of United States exports, would outweigh the policies of the Bank Holding Company Act regarding the separation of banking and commerce. Accordingly, on the basis of the foregoing and other considerations reflected in the record, the Board hereby denies Lloyds Bank's request for exemption pursuant to § 4(c)(9) to retain its indirect investments in Drake and Drake P.R.

Based upon the foregoing and other considerations reflected in the record, and based upon the assumption that Lloyds Bank will become a bank holding company through the acquisition of voting shares of First Western Bank and Trust Company of Los Angeles, California, in accordance with its application approved by the Board, the Board has made the following determinations:

1. Pursuant to § 4(c)(9) of the Act, the Board has determined that the continued indirect ownership by Lloyds Bank of all of BW's voting shares, is exempt from the prohibitions of section 4 of the Act under § 225.4(g)(2)(iii) of Regulation Y, subject to the following conditions:

(a) That BW cease to engage in the activity of arranging directly the shipment of goods from the United States within two years

from the date as of which Lloyds Bank becomes a bank holding company; and

(b) That BW cease operating three retail stores in the Boston area within two years from the date as of which Lloyds Bank becomes a bank holding company.

2. Pursuant to § 4(c)(9) of the Act and § 225.4(g)(3) of Regulation Y, the Board approves the continued indirect ownership by Lloyds Bank of approximately 46.6 per cent of the voting shares of ECMC, so long as ECMC does not invest in more than 5 per cent of the voting shares, or acquire control over the management or policies, of any company except with prior Board approval, and subject to the following condition: that Lloyds Bank dispose of its indirect 46.6 per cent interest in the voting shares of Drake and Drake P.R. within two years from the date as of which it becomes a bank holding company.

3. Pursuant to § 4(c)(9) of the Act, the Board has determined that the continued indirect ownership by Lloyds Bank of approximately 46.6 per cent of the voting shares of ECC is exempt from the prohibitions of section 4 of the Act under § 225.4(g)(2)(iii) of Regulation Y.

The foregoing determinations are subject to the Board's authority to require reports by, and make examinations of, holding companies and their subsidiaries; to require such modification or termination of the activities of a holding company or any of its

subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof; and to revocation by the Board if the facts upon which it is based change in any material respect.

By order of the Board of Governors,8/ effective January 9, 1974.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Secretary of the Board

[SEAL]

8/ Voting for this action: Vice Chairman Mitchell and Governors Brimmer, Sheehan and Holland. Absent and not voting: Chairman Burns and Governors Daane and Bucher.

Banco di Roma has applied for a special exemption for its investment in EuroPartners under § 225.4(g)(3) of Regulation Y, contending that retention of such investment would be consistent with the purposes of the Act and would be in the public interest. Its principal arguments are that (1) a very substantial proportion (73%) of EuroPartners' gross income is derived from foreign sources,[1/] (2) the possibility of abuses associated with common ownership of a commercial bank and an investment banking firm could be eliminated by specific undertakings of Banco di Roma to insulate the activities of Banco di Roma (Chicago) from those of Euro-Partners, (3) the operations of EuroPartners would have a beneficial impact on the balance of payments of the United States by facilitating foreign investment in this country, and (4) it would be inequitable to deny an exemption in circumstances that would force Banco di Roma to choose between a securities operation in New York and a banking operation in Illinois, when other foreign banks are permitted to have both a securities operation and a banking operation in New York.[2/]

1/ It does not appear that EuroPartners is or will be engaged in the United States exclusively in activities incidental to its international or foreign business, nor has Banco di Roma given any assurances to the Board concerning the future scope -- whether foreign or domestic oriented -- of the operations of EuroPartners. Since the underwriting business of EuroPartners predominantly relates to United States customers, an exemption under §§ 225.4(g)(2)(iii) or (iv) of Regulation Y would not seem appropriate, and Banco di Roma has not applied under those sections. The Board expresses no opinion on the question whether a company engaged in the United States exclusively in brokerage business for primarily foreign customers could qualify for exemption under either of these sections.

2/ The fourth argument refers to branch operations of foreign banks in New York. Foreign banks are permitted to establish branches under New York State law and are not so permitted under Illinois law. A branch of a foreign bank in the United States would not be a "bank" as that term is defined in § 2(c) of the Bank Holding Company Act, and such a branch may therefore be established wherever permitted by State law in the need to obtain the Board's prior approval under the Act.

investment advisory services. The corporation is a member of the National Association of Securities Dealers, Inc., the Philadelphia-Baltimore-Washington Stock Exchange, and the Midwest Stock Exchange. It effects securities transactions in the over-the-counter market both as principal and agent. It offers financial advice and services to European and other foreign clients interested in obtaining financing in the United States or in effecting in the United States direct investments, acquisitions, joint ventures, mergers and other corporate transactions. It offers similar services with respect to foreign markets to American and Canadian companies having interests abroad.

In the calendar year 1971, approximately 73 per cent of EuroPartners' gross income was derived from foreign sources. Approximately two-thirds of its gross income consisted of commission income from brokerage business. Historically, foreign customer accounts have generated more than 90 per cent of its gross brokerage commissions on all customer accounts. On the other hand, approximately 15 per cent of its gross income was derived from underwriting of securities, and almost 90 per cent of gross income from this source was derived from United States customers.

Section 4(c)(9) of the Act provides that the prohibitions of section 4 shall not apply to the investments or activities of foreign bank holding companies that conduct the greater part of their business outside the United States, if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of the Act and would be in the public interest.

Banco di Roma has applied for a special exemption for its investment in EuroPartners under § 225.4(g)(3) of Regulation Y, contending that retention of such investment would be consistent with the purposes of the Act and would be in the public interest. Its principal arguments are that (1) a very substantial proportion (73%) of EuroPartners' gross income is derived from foreign sources,[1/] (2) the possibility of abuses associated with common ownership of a commercial bank and an investment banking firm could be eliminated by specific undertakings of Banco di Roma to insulate the activities of Banco di Roma (Chicago) from those of EuroPartners, (3) the operations of EuroPartners would have a beneficial impact on the balance of payments of the United States by facilitating foreign investment in this country, and (4) it would be inequitable to deny an exemption in circumstances that would force Banco di Roma to choose between a securities operation in New York and a banking operation in Illinois, when other foreign banks are permitted to have both a securities operation and a banking operation in New York.[2/]

1/ It does not appear that EuroPartners is or will be engaged in the United States exclusively in activities incidental to its international or foreign business, nor has Banco di Roma given any assurances to the Board concerning the future scope -- whether foreign or domestic oriented -- of the operations of EuroPartners. Since the underwriting business of EuroPartners predominantly relates to United States customers, an exemption under §§ 225.4(g)(2)(iii) or (iv) of Regulation Y would not seem appropriate, and Banco di Roma has not applied under those sections. The Board expresses no opinion on the question whether a company engaged in the United States exclusively in brokerage business for primarily foreign customers could qualify for exemption under either of these sections.

2/ The fourth argument refers to branch operations of foreign banks in New York. Foreign banks are permitted to establish branches under New York State law and are not so permitted under Illinois law. A branch of a foreign bank in the United States would not be a "bank" as that term is defined in § 2(c) of the Bank Holding Company Act, and such a branch may therefore be established wherever permitted by State law in the need to obtain the Board's prior approval under the Act.

Banco di Roma's investment in EuroPartners is an investment that would not be permissible to a domestic bank holding company. The Board has consistently applied the policies of the Glass-Steagall Act to all bank holding companies registered under the Bank Holding Company Act irrespective of whether they have subsidiaries that are member banks. (See, e.g., 12 CFR 225.125 and 12 CFR 225.126.) In enacting the Glass-Steagall Act, Congress indicated that affiliations of commercial banks and securities companies give rise to potential conflicts of interests and unsound banking practices.

The Board is not persuaded that the public benefits that are alleged for the affiliation of a foreign bank holding company and a securities company would outweigh the possible adverse effects with which Congress was concerned in the enactment of the Glass-Steagall Act. An affiliation with a securities company would give a foreign bank holding company an unfair competitive advantage over a domestic bank holding company in that a foreign bank holding company would be able to offer its customers an alternative means of obtaining financing to credit facilities, namely, underwriting facilities. While there is no reason to doubt the sincerity of the Banco di Roma's plan to insulate the operations of its subsidiary bank in Chicago from the operations of EuroPartners, adoption of such a plan as a general guideline for conforming the operations of

any bank holding company to the policies of the Glass-Steagall Act would pose very difficult supervision problems for the Board which, in the Board's judgment, vitiate the superficial merits of such a plan. 3/

Moreover, the Board is of the opinion that differences in State laws on bank branching should not be permitted to override the policies of the Bank Holding Company Act regarding the separation of banking from commerce. The Banco di Roma is at no disadvantage to any other bank in its inability to obtain a branch in Illinois, since Illinois law does not authorize branching by any bank. Were the Board to adopt a policy of permitting exceptions to the prohibitions of section 4 in the interest of compensating for differences in State law, the application of section 4 would be seriously compromised.

Based on the foregoing and other considerations reflected in the record, the Board has determined to deny the request of Banco di Roma for an exemption under section 4(c)(9) of the Bank Holding Company Act for its investment in EuroPartners. Under section 4(a)(2) of the Act, if Banco di Roma consummates the acquisition of its proposed

3/ The plan would not deal, for example, with the problem of possible reciprocal lending by various banks to each other's securities affiliates or their customers.

subsidiary bank in Chicago, it will be obligated to divest its ownership of shares of EuroPartners within two years after the date as of which it becomes a bank holding company.

By order of the Board of Governors,[4/] effective September , 1972.

Tynan Smith
Secretary of the Board

4/ Voting for this action:

FEDERAL RESERVE

press release

For immediate release December 6, 1973

The Board of Governors has today denied the request, pursuant to § 4(c)(9) of the Bank Holding Company Act, of The Royal Trust Company, Montreal, Quebec, Canada, to permanently acquire Information Systems Design, Inc., Oakland, California. However, the Board has granted The Royal Trust Company permission to temporarily acquire Information Systems Design because such acquisition is an incident to an essentially foreign transaction. The temporary acquisition of Information Systems Design is subject to the condition that The Royal Trust Company divest itself of all interest in Information Systems Design as soon as practicable but in no event later than two years from the date of such temporary acquisition.

Attached is the Board's Order relating to this action.

Attachment

FEDERAL RESERVE SYSTEM

THE ROYAL TRUST COMPANY

Order Denying Acquisition of Information Systems Design, Inc.

The Royal Trust Company, Montreal, Quebec, Canada ("Royal"), a foreign bank holding company within the meaning of § 225.4(g)(1)(iii) of Regulation Y, has applied for the Board's approval under § 4(c)(9) of the Bank Holding Company Act ("Act") to indirectly acquire Information Systems Design, Inc. ("ISD"), Oakland, California.

Royal proposes to acquire Computel Systems, Ltd. ("Computel"), a Canadian corporation that is primarily engaged in the business of selling computer time.[1/] Royal proposes to acquire Computel in order to obtain an internal source of computer services that may increase efficiency and reduce Royal's cost of obtaining such services.

ISD is a wholly-owned subsidiary of Computel that is also primarily engaged in selling computer time. ISD provides other related services, including storage of information and programs on magnetic recording devices, leasing remote terminal computer devices and telephone lines, and writing and developing computer programs. Royal proposes to indirectly acquire ISD contemporaneously with and as an incident to its acquisition of Computel. Pursuant to § 225.4(g)(3) of Regulation Y and § 4(c)(9) of the Act, Royal has requested the Board to exempt its indirect acquisition of ISD from the prohibition against nonbanking interests contained in § 4 of the Act.

1/ Although the data processing activities of Computel are broader than those permissible for a domestic bank holding company under § 4(c)(8) of the Act, § 225.4(g)(2)(i) of Reg. Y provides that a foreign bank holding company may engage in direct activities of any kind outside the United States.

Section 4(c)(9) of the Act provides that the prohibitions of § 4 shall not apply to the investments or activities of foreign bank holding companies that conduct the greater part of their business outside the United States if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of the Act and would be in the public interest. Royal has applied for a special exemption for its acquisition of ISD under § 225.4(g)(3) of Regulation Y, contending that such acquisition would be consistent with the purposes of the Act and would be in the public interest.

In support of its request for an exemption pursuant to § 4(c)(9), Royal states that the acquisition of ISD is merely an incident to an essentially foreign transaction which would have no adverse effects in the United States. Although Royal's indirect acquisition of ISD is part of an essentially foreign transaction, a domestic bank holding company would be prohibited from acquiring a company engaged in the range of data processing activities of ISD.[2] The Board believes that the acquisition of a data processing company engaged in the range of activities of ISD could give a foreign bank holding company a competitive advantage over a domestic bank holding company and that the acquisition of such a company is inappropriate for a foreign bank holding company. Royal has not presented

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2/ Selling more than excess computer time, storing and processing information that is not financial in nature, and developing programs that are not financial in nature are not permitted by the Board's data processing regulation and interpretation unless such data processing services are requested by a customer and are not otherwise reasonably available in the relevant market area (§ 225.4(a)(8) of Reg. Y and 12 CFR § 225.123).

arguments that would support a contrary conclusion. On the basis of the foregoing and other considerations reflected in the record, the Board hereby denies Royal's request for an exemption pursuant to § 4(c)(9) to permanently acquire ISD. Since Royal proposes to indirectly acquire ISD simultaneously with its acquisition of Computel and as an incident to an essentially foreign transaction, the Board finds that it would be consistent with the standards of § 4(c)(9) to permit Royal to temporarily acquire ISD and to grant Royal a reasonable period of time in which to effect an orderly divestiture of ISD. On this basis, the Board hereby permits Royal to temporarily acquire ISD subject to the condition that Royal shall use its best efforts to divest ISD as soon as practicable after its acquisition of Computel, but in no event shall Royal retain any interest in ISD after two years from the date of its acquisition of Computel.

By order of the Board of Governors, 3/ effective December 6, 1973.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Secretary of the Board

[SEAL]

3/ Voting for this action: Governors Brimmer, Sheehan, Bucher and Holland. Absent and not voting: Chairman Burns and Governors Mitchell and Daane.

FEDERAL RESERVE SYSTEM

BANQUE NATIONALE DE PARIS

Order Approving Retention of Investment in French American Banking Corporation, French American Capital Corporation, and Locafrance-U.S. Corporation and Disapproving Retention of Investment in Indumat Equipment Corporation

Banque Nationale de Paris ("BNP"), Paris, France, has applied for the Board's approval under section 4(c)(9) of the Bank Holding Company Act to retain all of the voting shares of French American Banking Corporation ("FABC"), New York City, and of FABC's wholly-owned subsidiary, French American Capital Corporation ("FACC"), New York City, if BNP becomes a bank holding company.

BNP has received the Board's permission to become a bank holding company through the acquisition of all of the voting stock (less directors' qualifying shares) of a proposed new bank in San Francisco, California, to be named French Bank of California. If the proposed acquisition is consummated, BNP will be a foreign bank holding company within the meaning of § 225.4(g)(1)(iii) of Regulation Y.

FABC is an "investment company" chartered under Article XII of the New York State Banking Law. It is engaged in banking activities, including short- and medium-term lending, acceptances, remittance of funds, foreign exchange transactions, and related activities. FABC receives credit balances for the account of its customers in connection with transactions that it is legally authorized to perform, but does not accept deposits. Except for FABC's investment in the shares of its wholly-owned subsidiary FACC, FABC does not directly own more than 5 per cent of the shares of any company.

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FACC is a corporation organized in 1970 under the laws of the State of Delaware that specializes in investing funds for its own account. It plans to expand its activities to provide investment advisory services and corporate financial services, including assistance in mergers and acquisitions. Most of FACC's funds have been placed in short-term investments, including purchase of participations in FABC's loans and investment in negotiable corporate and government notes. FACC has also made venture capital investments and has invested in securities listed on an exchange. Among its venture capital investments, FACC has acquired more than 5 per cent of the voting shares of two United States subsidiaries of French corporations. It has a 15 per cent interest in Locafrance-U.S. Corporation, which is engaged in the business of leasing equipment, and a 15.0 per cent interest in Indumat Equipment Corporation, which sells and leases scaffolding systems. Both such corporations are located in New York City.

Section 4(c)(9) of the Act provides that the prohibitions of section 4 shall not apply to the investments or activities of foreign bank holding companies that conduct the greater part of their business outside the United States, if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of the Act and would be in the public interest. In § 225.4(g)(2)(iv) of Regulation Y, the Board has determined that a foreign bank holding company

may, with the Board's consent, own or control voting shares of any company principally engaged in the United States in financing or facilitating transactions in international or foreign commerce. From the information submitted by the Applicant, it appears that the great majority of FABC's business is conducted with, or on behalf of, foreign customers and that FABC is principally engaged in international or foreign banking in competition with other financial institutions in New York City, including branches or agencies of foreign banks, the international banking departments of New York banks, and Edge Act subsidiaries of other banks. FABC is active in the domestic market for call loans to brokers, bankers' acceptances, and bankers' certificates of deposit; however, such business is small in proportion both to FABC's total business and to the markets for these types of assets in New York City.

In the Board's judgment, FABC's activities meet the conditions for exemption set forth in section 4(c)(9) of the Act and § 225.4(g)(2)(iv) of Regulation Y. In the Board's judgment, FACC's investment activities as described by Applicant are consistent with the purposes of the Act and the public interest, except as noted below and subject to the condition that FACC not invest in more than 5 per cent of the voting shares, or acquire control over the management or policies, of any issuer except with prior Board approval. FACC's proposed investment advisory services and its investment in Locafrance-U.S. Corporation are consistent with the scope of activities permitted to a domestic bank holding company under section 4(c)(8) of the Act and §§ 225.4(a)(5) and (6) of Regulation Y.

The term "corporate financial services" as used by Applicant to describe a proposed new activity of FACC is not specifically defined in the application. The Board is of the view that FACC should be permitted to furnish financial services of a kind authorized by § 225.4(a)(5) of Regulation Y. The Board has not determined that assistance in mergers and acquisitions is included among such services.

FACC's investment in Indumat Equipment Corporation is an investment that would not be permissible to a domestic bank holding company, since Indumat is engaged in the business of selling goods in the United States. The Board believes that such an investment is inappropriate for a foreign bank holding company, and no sound reasons have been advanced by Applicant in support of a contrary conclusion.

Competition in international or foreign banking in the New York market will be promoted if BNP is permitted to retain its investments in FABC and FACC. FABC is a small competitor in this market, and it is in the public interest that such competition be preserved to the extent consistent in other respects with the purposes of the Act.

Based upon the foregoing and other considerations reflected in the record, and based upon the assumption that BNP will become a bank holding company through the acquisition of voting shares of French Bank of California in accordance with its application approved by the Board, the Board has made the following determinations:

1. Pursuant to section 4(c)(9) of the Act and § 225.4(g)(2)(iv) of Regulation Y, the Board consents to the continued ownership by BNP of all of FABC's voting shares.

2. Pursuant to section 4(c)(9) of the Act and § 225.4(g)(3) of Regulation Y, the Board approves the continued indirect ownership by BNP of all of FACC's voting shares, subject to the following conditions:

(a) That FACC limit its corporate financial services to the kind of services authorized by § 225.4(a)(5) of Regulation Y,

(b) That BNP dispose of its indirect 15 per cent interest in Indumat Equipment Corporation within two years from the date as of which it becomes a bank holding company.

3. Pursuant to section 4(c)(9) of the Act and § 225.4(g)(3) of Regulation Y, the Board approves the continued indirect ownership by BNP of 15 per cent of the voting shares of Locafrance-U.S. Corporation, New York City, provided that Locafrance confines its activities to leasing of personal property and equipment in accordance with § 225.4(a)(6) of Regulation Y.

The foregoing determinations are subject to the Board's authority to reqûire reports by, and make examinations of, holding

companies and their subsidiaries; to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof; and to revocation by the Board if the facts upon which it is based change in any material respect.

By order of the Board of Governors,[1/] February 7, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

1/ Voting for this action: Chairman Burns and Governors Robertson, Daane, Brimmer, and Sheehan. Absent and not voting: Governors Mitchell and Maisel.

Question No. 2

As an alternative to requiring Federal Reserve membership for branches, agencies and subsidiaries of foreign banks with worldwide assets in excess of $500 million, would it be sufficient for monetary policy purposes to leave Federal Reserve membership optional, but to require all foreign branches and agencies (but not subsidiaries) to maintain reserves at levels and in forms comparable to those required for Federal Reserve member banks?

Answer: The Board's proposed foreign bank regulation (S. 958) would require that all agencies, branches, and banking subsidiaries of foreign banks or foreign bank holding companies with worldwide assets in excess of $500 million become members of the Federal Reserve System.

The Board considered, as an alternative to the provision in S. 958, recommending that all agencies, branches and banking subsidiaries maintain reserves comparable to those required of Federal Reserve member banks but not to require Federal Reserve membership. It rejected that alternative because membership would ensure that all Federal Reserve regulations used to effect monetary policy would be applied automatically to all U. S. banking offices of foreign banks. Thus, as instruments of monetary control that do not function through reserve requirements are used, such as the Regulation Q ceilings on interest rates, and as new instruments are developed, no special legislation would have to be enacted and no voluntary programs of moral suasion would have to be devised in order to achieve roughly comparable monetary control over U. S. offices of foreign banks.

To require only agencies and branches to maintain reserves, but not subsidiary banks, has an additional drawback. Excluding subsidiary banks from the burden of reserve requirements would make the establishment and expansion of nonmember banking subsidiaries

more attractive relative to that of agencies and branches and thereby would enhance the shifting of deposits from offices subject to Federal Reserve regulations to offices that are subject to less burdensome State reserve requirements, which are not designed for monetary control.

If Congress should decide against compulsory membership, then it is not enough to extend only reserve requirements to foreign bank operations in the U. S. In addition, this authority should extend to interest rate controls and any other regulations imposed on member banks that the Board deems necessary for the implementation of domestic monetary policy. The Board furthermore believes that if branches and agencies maintain Federal Reserve reserve requirements they should also have access to Federal Reserve clearing and discount facilities in order to afford them national treatment. For the reasons discussed above, it would also be important to give the Board examination authority over such operations.

Question No. 3

The provision requiring FDIC insurance for foreign bank branches and agencies raises the objection that not all U. S. banks are required to carry such insurance. In addition, there are considerable practical difficulties in insuring the deposits of entities not incorporated in the United States are there not? If the purpose is to protect small U. S. depositors when foreign banks establish retail operations, would it be sufficient to require any foreign bank branch or agency accepting domestic deposits exceeding a specified threshold level to convert to a state or federally chartered subsidiary?

Answer: There are three operative provisions in the Board's proposal that make FDIC insurance mandatory for branches and agencies:

(1) Sections 2(4) and (6) of S. 958 would define a branch and agency of a foreign bank to be a "bank" subsidiary of a bank holding company; as a result, each such branch and agency as a "subsidiary bank" of a bank holding company would be required to become and remain an "insured" bank by section 3(e) of the Bank Holding Company Act of 1956, as amended ("BHCA");

(2) Section 3(f) of the Board's proposal requires each branch, agency and subsidiary bank of a foreign bank with world-wide bank assets in excess of $500 million to become and remain a member bank; as a result, each such branch and agency as a State member bank would have to become an insured bank since under section 4 of the FDIC Act (12 U.S.C. 1814) every State bank that becomes a member of the Federal Reserve System and which is engaged in the business of receiving deposits, shall be an insured bank from the time it becomes a member of the System; and

(3) Section 6(1) of the Board's proposal would amend the Federal Reserve Act to require federal branches of foreign banks established pursuant to section 18 of the Board's proposal to become insured banks.

It is thus clear that, consistent with the principle of national treatment, the Board has not proposed a special mandatory insurance requirement for branches and agencies of foreign banks; rather, branches and agencies are merely automatically subjected to the same mandatory insurance requirement that applies to all subsidiary banks of bank holding companies and all member banks. This group of banks required to be insured includes, without exception, this nation's largest banks which are the primary competitors of foreign banks in this country.

In its statement to the Subcommittee on S. 958, the FDIC indicated that it was concerned that the non-incorporated status of such offices could pose legal and practical obstacles to effective supervision of their operations and to the marshalling of assets in case of insolvency and that these factors pose substantial uncertain risks to the assets of the FDIC fund. For these reasons, the FDIC believes that insurance should only be made available for U. S.-incorporated banking subsidiaries of foreign banks.

This point highlights the need to ensure that only sound, well-managed foreign banks with extensive international experience be permitted to open branches and agencies in this country. Any such evaluation would have to take into account the position, standing

and reputation of such bank in its home country, and, most importantly, the attitude of its home country banking authority toward the establishment of any U. S. office by such bank. It would appear that obtaining knowledge on these issues would best be accomplished at a national level.

As pointed out by the FDIC, the risks to the FDIC fund in the case of an insolvency situation must be thoroughly considered. On this issue, the FDIC carefully notes the problems that could occur if a foreign bank made a deliberate effort to move assets outside the United States; it would seem, however, that many of these same problems could similarly occur in the case of a wholly-owned subsidiary of a foreign bank. To the extent that these risks can be dealt with through amendments to the FDIC Act, the regulatory or cost burdens that would be imposed by any particular amendment would have to be weighed against the additional protection it would bring. It would seem here that a middle ground could be reached whereby the FDIC's exposure could be reasonably limited and the requirements imposed on foreign banks would not be unreasonably burdensome.

Requiring a branch or agency to convert to a State or national bank subsidiary if its deposits reached a certain level would deny foreign banks the opportunity to choose the form of banking organization that best suited their needs and purposes for entering the U. S. market. Most banks, including especially U. S. banks which have some 750 branches abroad, prefer to expand in a branch form of organization since it places the full support of the parent institution behind their operations and

avoids problems of local lending limits, etc., that are usually placed on subsidiaries. If the Congress believes that the regulatory problems of extending FDIC insurance to branches and agencies are too great and yet it nevertheless wants to assure that all depositors at U. S. banking offices have some form of deposit protection, it could, as suggested by Congressman Rees in H. R. 12103, require a foreign bank to maintain a separate surety bond, in lieu of insurance, to protect depositors. This would remove any risks to the FDIC fund and would afford depositors a substantial measure of protection. This would seem a fairer alternative than required conversion to a subsidiary.

Question No. 4

Section 25(b) of the bill provides for federal licensing of entry by foreign banks whether those banks are to be established under state or federal law. Would it be sufficient to require state bank regulatory agencies to consult formally with federal regulatory agencies and the Department of State on all applications for entry by foreign banks under state law?

Answer: The Board has proposed the licensing requirement of section 25(b) because it would permit the adoption of a truly national policy on foreign bank entry in the United States. If a State was free to disregard the recommendation of federal authorities, it not only could frustrate the development of such a national policy but also could result in actions that might be inconsistent with this country's foreign and international financial policies. Given the federal government's constitutional responsibility for controlling money and for managing the international monetary affairs of the nation, it seems clear that more than an advisory federal role is desirable.

Question No. 5

Section 18(b) of the bill would permit foreign banks to set up one or more branches in any state, "notwithstanding the laws of that state." Considering the reluctance of some states to permit an infusion of foreign bank branches, would you support a provision that permits states to ban foreign branches by adopting a statute for that purpose within three years subsequent to enactment of the Foreign Bank Act?

Answer: The Board would not support such a provision because it does not believe that the States should be allowed to prevent foreign bank entry in important U. S. markets if the federal government has determined that such entry is in the national interest. There has always been a tradition in our federal banking laws of not allowing a State to prohibit the establishment within its borders of federal banking entities such as national banks and Edge Corporations. That tradition exists, at least in part, to encourage the entrance of new competitors in essentially local banking markets. Since U. S. banks can establish branches or subsidiaries, or both, in most industrialized countries abroad, foreign banks should be allowed to choose the location and form of banking organization in the U. S. that best serves their purposes for entering the U. S. market. The Board thus opposes the recognition of a statutory State veto power on admission, but has no objection to giving the States a consultative role with the federal chartering authority prior to initial entry.

Question No. 6

Why does S. 958 place foreign bank branches and agencies under the Bank Holding Company Act rather than establishing a separate section applying similar but not identical restrictions to branches and agencies?

Answer: Focussing on the particular usefulness, from a regulatory standpoint, of defining a branch and agency of a foreign bank as a "bank" under the Bank Holding Company Act, such a definition accomplishes the following: (1) no branch or agency, whether Federal or State, could be established without Board approval under the banking factors prescribed in § 3(c) of the Act; (2) each branch and agency would have to become an insured bank under § 3(e) of the Act; (3) branches and agencies would be subjected to the multi-state prohibitions of § 3(d) of the Act; (4) any foreign bank with a branch or agency would be subject to the nonbanking prohibitions of § 4 of the Act; (5) as a bank holding company, any foreign bank with a branch or agency would be subject to the examination and reporting requirements of the Act; and (6) any foreign bank with a branch or agency and any nonbank U.S. subsidiary thereof would be subject to the Board's cease-and-desist authority. To accomplish all of these desirable objectives through separate legislation would be extremely difficult and more complex than simply amending the Bank Holding Company Act.

While it has been contended that treating a branch or agency as a subsidiary under the Bank Holding Company Act is a legal fiction, a close examination of existing State laws governing branches and agencies reveals that these offices are now legally and operationally

treated as separate entities--they must keep separate books and records from their parent, deposit securities in lieu of capital, maintain U.S. assets in order to cover their U.S. liabilities, observe lending limit, usury and other limitations, and in New York, Illinois and Massachusetts, branches are given the same rights and privileges as State subsidiaries. (See attached copy of a staff memorandum on the legal framework of foreign bank operations in the U.S. which discusses the State law provisions in more detail.)

Question No. 7

Section 12 of the bill provides that the Comptroller of the Currency may permit as many as one-third of the directors of a national bank to be foreign citizens. Is the one-third limit high enough to make formation of a national bank subsidiary an attractive alternative to a state bank subsidiary for foreign banks?

Answer: The Board has received no comments to date from foreign banks that the one-third limit may be too low. We anticipate in most circumstances that this limit will prove satisfactory.

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WEDNESDAY, JANUARY 28, 1976, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss our views on S. 958, the Foreign Bank Act of 1975.

To begin, I would like to address two general subjects which bear importantly on our overall consideration of the legislation. It is important first to clarify the need for the legislation and second to address the misunderstanding that frequently surrounds concerns about reciprocity.

The conduct of the business of banking has been viewed as an appropriate object of Federal regulation since the last century. Domestic banks -- that is, banks chartered in this country and owned and operated by U.S. citizens -- have always been subject to a pervasive scheme of Federal regulation. Recognizing that the existence of an orderly, sound, and well-integrated banking structure is essential to the proper functions of our economy, the Federal Government's interest, indeed obligation, to regulate the banking function is no longer subject to question. Indeed, the Congress is addressing questions concerning the efficiency and adequacy of domestic bank regulation.

The present mechanism for regulating foreign banking in the U.S., however, is not fully suited to deal with the demands of the last quarter of the 20th century. In the recent past, and particularly in the last 5 years, the proliferation of banking institutions across national lines has not only become an important consideration in international commerce and finance but also in the individual national economies of the major industralized countries of the world. The significance of these developments have been fully recognized by our principal trading partners, all of which thoroughly regulate foreign banking -- including the activities of U.S. owned institutions operating in such countries -- at the national level. In my view, it is entirely appropriate

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that we reflect our own national interests in a similar form of regulation.

Let me comment on the question of reciprocity. You will probably hear testimony expressing the concern that imposing U.S. regulation on the activities of foreign banks in the U.S. will encourage governments abroad to retaliate with restrictive measures affecting the activities of U.S. owned institutions. I do not think this is supported by the practical realities of the marketplace. All of the countries in which U.S. institutions have significant banking interests already regulate the activities of U.S. banks. Further, there is nothing inconsistent in our treaties and trade agreements with the prospective national oversight of foreign banking operations in the U.S. Banking is universally recognized as having a unique role in monetary and credit policies of nations and any specific objections of individual countries to the present bill will be defensible. This is particularly so because banking systems differ widely throughout even the industrialized world and it would be a futile and unproductive exercise to attempt to rationalize our U.S. system with those of our trading partners. Given the pervasive regulation of foreign banks abroad, I do not believe that the fear of retaliation should be given undue weight in this Committee's deliberations.

Let me briefly review the important aspects of foreign bank operations here that I think are relevant to your consideration of the bill. Foreign banking institutions generally conduct their operations in the United States in one of two forms: (1) as a separate subsidiary banking entity chartered by a state, or (2) as a branch or agency of a foreign-chartered bank again approved by state banking authorities. Technically, a foreign bank could own a United States national bank. However, because, all national bank directors must be United States citizens, foreign bank entry through the national bank route has not been an attractive alternative. Accordingly, the two banking forms I have described are the primary ones. Of the two forms, the most important foreign bank operations here are now conducted through branches or agencies and are therefore not subject to Federal regulation. It is primarily these activities which the legislation before us addresses.

The proposed bill arises out of the following conclusions by the Federal Reserve Board:

-- that all new foreign bank entries in the U.S. in the future should be subject to a uniform Federal entry requirement;

-- that the U.S. operations of all foreign banks should be subject to Federal supervision and regulation and the operations of foreign banks of a certain size should be subject to the FRB's monetary and credit control authority;

-- that foreign banks should prospectively be subject to the same limitations as domestic banks regarding non-banking activities and multi-state-operations;

-- that deposits in U.S. banking offices of foreign banks should be insured by the FDIC.

Four principal statutory changes are employed to accomplish these objectives. First, the Bank Holding Company Act of 1956 -- which defines every "company" which controls a "bank" as a "bank holding company" would be amended to define branches and agencies of foreign banks (but not of domestic banks) as "banks" for purposes of the Act. Existing multi-state operations and securities affiliates which would otherwise be prohibited under the Act would be grandfathered.

Second, existing law would be amended to require that any branch, agency or subsidiary of a foreign bank having world-wide banking assets in excess of $500,000,000 become a member bank of the Federal Reserve System.

Third, the National Bank Act would be amended to empower the Comptroller of the Currency to grant a certificate of authority to a foreign-owned branch to operate as a "Federal" branch, with powers comparable to those of a national bank, irrespective of whether the laws of the state in which the foreign-owned branch would be located prohibit or regulate entry of the foreign-owned banks.

Fourth, the bill would create a new legal requirement that a foreign bank seeking to establish a state-chartered banking operation first obtain a Federal banking license from the Comptroller of the Currency, acting with the approval of the Secretary of the Treasury. In reviewing applications for licenses, the Secretary would be required to take into account the views of the Comptroller, the Federal Reserve Board, and the Department of State.

In assessing the possible attitudes of foreign nations toward the provisions of the bill, it may be useful to look at the ways major foreign nations presently regulate foreign banks.

Last summer, the Treasury and State Departments asked U.S. Embassies in several major countries whose banks operate in the United States to report on host government regulation of U.S. and third country banks. This information on foreign bank regulation in several other countries was compiled into a detailed report, which I am submitting to this subcommittee for use in the Subcommittee's deliberations on the bill.

Let me outline for you the major findings of our study.

Basically, we found that host governments seem to follow policies of national treatment, or nondiscrimination, toward U.S. and other foreign banks. This policy of nondiscrimination is reflected both in laws and regulations and in administrative practices. The most noteworthy departures from national treatment as reported by U.S. Embassies are: (1) the inability of U.S. banks in the United Kingdom to use the rediscount facility of the Bank of England or to have sterling paper qualify as an asset under Bank of England reserve requirements; and (2) the need to obtain work permits to bring foreign management and staff into several countries, primarily Italy, France and Switzerland. Furthermore, while host governments do permit foreign banks to enter retail banking, we learned that both the authorities and the indigenous banking communities prefer that foreign banks limit themselves to international and wholesale banking activities.

Two countries, Italy and Switzerland, have reciprocity requirements under which the granting of licenses to establish foreign-owned banks is somewhat contingent on the treatment Swiss banks or Italian banks receive in the particular foreign country. The most stringent reciprocity requirement is the

Swiss insistence on "mirror" reciprocity, whereby, in considering granting a license to a foreign bank, the Swiss look at the treatment of Swiss banks in the particular local foreign jurisdiction where the head office of the applying foreign bank is located, even if it is a political subdivision such as one of our states.

It should be noted in this connection that the United States has been a leading advocate of a liberal framework governing international investment and has continually sought to persuade other countries to liberalize their policies. At our urging, the Organization for Economic Cooperation and Development initiated negotiations and is now close to agreement on guidelines for member countries on national treatment for foreign investors.

Moreover, a recent completed interagency review of foreign investment laws and policy led the Administration to reconfirm our commitment to an "open door" policy on foreign investment. The review led to the conclusion that present legal safeguards in this area are adequate to protect U.S. interests.

A key aspect of the bill is the requirement of mandatory Federal Reserve membership. As I mentioned, S. 958 would require branches, agencies or subsidiaries of foreign banking institutions with world-wide assets in excess of $500,000,000 to become member banks in the Federal Reserve System. As member banks, such entities would: (1) be subject to supervision and regulation by the Federal Reserve, or the Comptroller of the Currency in the case of an entity operated pursuant to a national rather than state charter; (2) be subject to the monetary and credit regulation of the Federal Reserve Board; and (3) enjoy all the privileges of membership in the Federal Reserve System, including access to the discount and emergency lending facilities of the Federal Reserve System.

We believe mandatory membership is the simplest way of ensuring that all foreign banks of any significiant size are uniformaly subject to Federal supervision and regulation and to the monetary and credit discipline of the Federal Reserve Board. As a practical matter, if Congress determines that the United States Government ought to exercise such regulatory authority over foreign banking activities, the other aspects of membership, such as access to the discount window and emergency lending facilities, generally would be desirable to foreign banks. Accordingly, in view of our conclusion that uniform Federal supervision and regulation and monetary and credit discipline of the Federal Reserve Board are desirable objectives, we support the concept of mandatory membership.

With respect to mandatory FDIC insurance, the Bank Holding Company Act requires each bank subsidiary of a bank holding company to be insured by the FDIC. Since the bill would define all foreign branches and agencies, as well as domestically-chartered subsidiaries, as "banks" for Bank Holding Company Act purposes, insurance would become mandatory for them as well.

In considering the issue, we took into account the fact that virtually all U.S. banks are insured by the FDIC. Sound implementation of the insurance program requires that the FDIC cover the entire banking system. With respect to foreign banks, no special difficulties of insurability are presented if U.S. banking is conducted through a separate corporate subsidiary. However, when the activity is conducted through a branch or agency, that is, an undifferentiated arm of the parent, applying the FDIC requirements becomes much more difficult.

After balancing the competing considerations, the Administration inter-agency group concluded that FDIC insurance coverage for foreign branches and agencies should be optional.

A major feature of the bill is its imposition of uniform Federal entry requirements on foreign banks. In this regard, the bill would require any foreign bank seeking to engage in banking in the U.S. to take three steps: (1) obtain a charter or other operating authority from a state or the Comptroller; (2) obtain a Federal banking license which must be approved by the Secretary of the Treasury, after consultation with the Secretary of State and the Federal Reserve Board; and (3) obtain the approval of the Federal Reserve Board to become a bank holding company.

With respect to these Federal entry requirements, a major issue, in our view, was the imposition of the following prerequisite to the grant of a Federal banking license: that the Secretary of the Treasury find that the grant would not "adversely affect the domestic or foreign commerce of the United States, or would otherwise not be in the interests of the United States." It can be argued that such a broad, "nonbank", standard could be viewed as inconsistent with the Administration's recently reaffirmed "open door" policy on foreign investment. However, any inconsistency with our general foreign investment policy is mitigated by the special status accorded banking both historically and under our FCN treaties.

Finally, we believe that the Bank Holding Company Act should not be used as a device for the application to foreign banks of certain substantive provisions embodied in that Act.

In our view, this approach invites confusion in the law which outweighs the burden of the additional drafting that might be involved in writing substantive statutory provisions specifically applicable to foreign banks,which are consistent with the rules applicable to U.S. Banks.

In sum, it is our view that the bill provides an excellent basis for effective and uniform Federal control over foreign bank operations in the United States. We do believe that the modifications that we have recommended would be in the best interests of the United States domestic banking system as well as in our international interest in maintaining a hospitable overseas climate for United States banks. We look forward to working with the Committee in the final development of this important legislation.

Embassy Survey by the Departments of Treasury and State of the Laws, Regulations, and Practices of Selected Foreign Countries Pertaining to Activities of United States and Third Country Banks—1975

SUMMARY

Because of continuing interest in the matter of reciprocity in international banking, the Treasury and State Departments last year and again in July 1975 asked U.S. Embassies in major countries in which foreign banks operating in the U.S. have head offices to report on host governments' laws, regulations and practices respecting foreign banks and whether U.S. banks were at a comparative disadvantage vis-a-vis either domestic banks or banks of any third country. The Embassies were also asked to report whether, in the aggregate, the managers of U.S. bank offices in their countries considered themselves materially disadvantaged by the laws, regulations and practices of the host country.

The following sections summarize on a country-by-country basis the replies received from U.S. Embassies. They indicate not only the direct controls of the foreign banking authorities, but also indirect controls such as restrictions on the introduction of foreign management or staff, location, method of publicity, etc. These sections also indicate the extent to which foreign owned banks may engage in the securities business, consumer financing, and nonbank financial and nonfinancial activities.

Basically, host governments seem to follow policies of nondiscrimination, or national treatment, toward U.S. and other foreign banks. This nondiscrimination is found both in laws and regulations and in administrative practices. The most noteworthy departures from national treatment reported by Embassies are: (1) the inability of U.S. banks in the United Kingdom to use the rediscount facility of the Bank of England or to have sterling paper qualify as an asset under the Bank of England reserve requirements; and (2) restrictions on the importation of foreign management and staff by several countries, primarily Italy, France and Switzerland. While none of these countries has prevented foreign banks from entering into competition with indigenous banks in retail banking, there does seem to be a tendency for host governments and the indigenous banking communities to consider that foreign bank should limit themselves to international and wholesale banking activities.

Although most countries surveyed have no formal or informal reciprocity requirements, Italy and Switzerland do have such requirements. The most stringent requirement is the Swiss insistence on "mirror" reciprocity between Switzerland and the foreign jurisdiction where the head office of a foreign bank is located.

FRANCE

Domestic and foreign banks in France are subject to uniform, national banking and credit regulations. Thus, regulations concerning sound banking practices are administered by a Bank Control Commission. Requirements furthering national credit policy, such as reserve deposit requirements, are laid down by decrees of the National Credit Council and administered by the Bank of France. Furthermore, bank requirements to administered exchange control regulations are determined by the Finance Ministry and administered by the Bank of France.

There are no provisions in published banking and credit regulations which apply exclusively to either foreign or domestic banks or which discriminate against foreign banks. Of course, uniform provisions can have a differing impact depending on the profile of a bank and its relative concentration in various activities. For example, for a time France required that banks deposit noninterest bearing reserves at the central bank equal to 100 percent of all additional nonresident deposits. This regulation fell more heavily on banks that wanted to increase their nonresident deposits and may have affected foreign banks more severely than indigenous banks because of their greater interest in nonresident deposits. However, the regulation's intent was to control the payments' inflows, not to discriminate against any particular bank category.

U.S. banks in France may enter nonbank activities, such as consumer finance and securities counselling, without apparent difficulty. Moreover, U.S. banks could be licensed to deal in securities under French law.

The French government maintains a liberal licensing policy on the establishment of branches and subsidiaries of foreign banks. U.S. banks that have entered France recently say they have found the administrative requirements to be neither onerous nor unreasonable. In fact, French authorities have made special exemptions from the application of the credit ceilings for new entrants, including foreign branches, and they are allowed to use their initial capitalization as a base since a calculation based on outstanding loans during the base period would have been de facto discrimination. U.S. banks report no difficulty in establishing additional branches as they desire, without restrictions on location, concentration, etc. Although there is still a law on the books limiting new branches to locations where there is "economic need," enforcement apparently has been allowed to lapse. Also, U.S. banks report no difficulty in getting necessary work permits for foreign staff.

However, foreign banks seeking establishment in France are subject to French over-all controls on foreign investment and foreign-exchange activities.

U.S. banks in France report that French authorities are even-handed in administering admittedly strict and detailed regulations. Some U.S. bankers perceive a difference between the way U.S. and French banks, particularly the large nationalized banks, approach the regulations. These bankers report that U.S. banks consider themselves "guests in France," and may be more scrupulous in following the regulations than the French banks themselves.

GERMANY

American banks are freely licensed in the Federal Republic of Germany and there is virtually no discrimination against them. They are subject to the general provisions of the German Banking Law and also to a few special provisions for foreign bank branches outlined below.

All credit institutions are licensed by the German Banking Supervisory Authority which has the authority to restrict the license of a credit institution to certain parts of the banking business or make its licensing dependent on conditions designed to further the objectives of the German Banking Law. The discretion of the Supervisory Authority is limited, however. It can deny a banking license only if: (1) the applicant institution does not have sufficient resources and particularly sufficient paid in capital within the FRG, (2) the manager of the institution does not have the necessary qualifications and experience or cannot be considered as trustworthy (paras 32 and 33 of the German Banking Law).

Once licensed, a bank is required to submit periodic reports to the Banking Supervisory Authority and is subject to audits.

In addition to supervision by the Banking Supervisory Authority, all German banks, including foreign banks established in Germany, are also required to submit reports and statistics to the Central Bank and maintain minimum reserves with it. In turn they are eligible to discount paper with the Central Bank at discount and Lombard rates and within ceilings determined by the Central Bank.

All of the above regulations apply equally to German banks as well as to affiliates and subsidiaries of foreign banks in Germany. There are no special laws or procedures applying only to the latter group. The only special provision of German law applying to foreign banks is para 53 of the German Banking Law which deals with branches of foreign banks and provides that for the purpose of German banking laws and regulations such branches are considered independent credit institutions. The paragraph further requires that such branches be headed by a manager living within the borders of the FRG and authorized to represent the parent institution in all operations of the German branch. It also provides for keeping records of the branch activities separate from those of its parents and that for purposes of German regulations (such as capital/balance sheet ratios) the working capital made available to the branch by its parent as well as earnings retained in the branch are to be considered liable capital. Finally, para 53 of the German Banking Law stipulates that if a foreign bank maintains more than one branch in the FRG, each branch is to be considered one bank for purposes of German regulations and that the opening of any additional branch by a foreign bank already maintaining one or more branches in the FRG shall require a new license and that the license for the establishment of a foreign branch may be denied among

other things on the grounds that the branch is not justified by the needs of the German economy. The underlined provisions are the only parts of German law that discriminate against foreign banks. The discrimination is twofold: (1) a German bank does not require a license to establish additional branches anywhere in the FRG and (2) the application for a license by a German bank cannot be denied on the grounds of a lack of economic need for it. In practice, however, American banks have not suffered substantial discrimination from these provisions. We are not aware of any applications for the establishment of additional branches by an American bank which in the end has been denied by the German Banking Supervisory Authority or of any application for the establishment of a branch denied on the grounds of lack of economic need (in addition, there is a question whether such a denial, if it ever should occur, would not violate the non-discrimination provisions of the German-American Treaty of Friendship, Commerce and Navigation and could be successfully fought on those grounds).

Similarly, American banks generally have found the German Authorities to be non-discriminatory in exercising what relatively little descretion they have in the bank licensing process. The Banking Supervisory Authority usually has insisted that part of top management (but not necessarily the top manager himself) should be German speaking and have some years of German banking experience. Also the granting of a license sometimes is made conditional on Land Central Bank approval of the names of other key employees—such as the foreign exchange dealer. Recently, joining a voluntary deposit insurance scheme apparently has also been made a condition of some licenses. But as far as we are aware none of these conditions has ever been used to discourage or prevent the establishment of an American bank. American banks are generally licensed for all aspects of the banking business, including the investment underwriting and brokerage business (in which, however, they generally do not engage for reasons unconnected with German regulations).

American banks in Germany, being largely money market banks without a large savings or deposit base, have been hit particularly hard by the tight money policies of the last year or so. They have also been particularly affected by recent German capital controls (now expired) which limited their access to money infusions from their parents and by changes in Bundesbank rediscount policies. In addition, they have encountered distinct coolness, but not legal resistance, by the German Authorities to their endeavors to enter more widely into the retail banking and installment credit business. But apart from the kind of friction occasionally inevitable between the regulated and the regulatory agency, American banks in Germany generally feel that their treatment continues to be fair and non-discriminatory.

ITALY

Foreign banks seeking establishment or already operating in Italy receive both de jure and de facto national treatment. If anything, they may be accorded somewhat more favorable treatment than Italian banks, since the Bank of Italy recognizes operational differences between foreign and indigenous banks and attempts to apply banking regulations flexibly to take these differences into account. For example, Italian banks' loan operations normally are limited to the geographic region in which they are located, while at least some U.S. banks have waivers to permit them freely to serve American business throughout Italy. Also, the application of credit controls to foreign banks takes into account that most foreign bank funds are obtained from interbank borrowing rather than from domestic demand deposits.

Under Italian Banking Law, the establishment and operation of all short-term credit institutions in Italy come under the control of the Bank of Italy. Neither in law nor in practice is a distinction made between foreign and Italian banks, nor between U.S. banks and other foreign banks.

With respect to indirect controls over foreign banking, banks must obtain work permits for foreign workers and approval is granted only in cases where an Italian cannot fill the position. In practice, U.S. banks have been permitted to fill high management positions with foreigners. No legal limits are imposed on bank location or on publicity. At present. the issuance of new licenses to foreign and Italian interests is rather restricted to avoid overbanking.

The Bank of Italy exercises exclusive control over the banking system, and local governments have no specific authority in bank regulation.

Both Italian and foreign commercial banks may buy and sell stock through authorized stockbrokers, on stock exchanges, or by trading directly among themselves. Banks may extend consumer credit, provided longer-term credit does not exceed 8 percent of total deposits. Although banks may invest in equities, they are not allowed ordinarily to hold such shares for purpose of management and control in order to restrict banks' operations to financial activities and to prohibit activities in nonfinancial areas.

Article 2 of Royal Decree 1620 of September 4, 1919, reconfirmed in the Banking Law, provides that in considerating requests by foreign banks to establish in Italy, the treatment Italian banks receive in the country of the foreign bank will be taken into account. While generally the Bank of Italy approaches reciprocity on a national basis, avoiding inquiry into situations where dual banking exists, as in the United States, there have been cases where the absence of reciprocity in some U.S. States has impeded or delayed the granting of a license to U.S. banks in Italy.

SWITZERLAND

Since July 1, 1969, foreign-controlled banks in Switzerland (whether branches, subsidiaries, or involving foreign participation) have had to obtain the permission of the Swiss Bank Commission before establishment and are subject to various regulations. Since 1971, a basic factor considered in applications for establishment has been whether the foreign jurisdiction in which the head office of the foreign bank is located makes available to Swiss banks reciprocal establishment and operating opportunities. The reciprocity concept, critical in Swiss decisions on the approval of the application of foreigners to establish banks in Switzerland, is intended to insure that Swiss banks are not subject to materially more limiting provisions in the foreign country than are imposed on foreign banks in Switzerland. The object is to establish "mirror" reciprocity over banks between Switzerland and foreign jurisdictions, as a means of undercutting the Swiss Bankers' contention that the Swiss Federal authorities have been overly liberal in permitting the establishment of foreign banks in Switzerland and to improve Swiss bargaining position with authorities in countries where Swiss banks have been attempting to establish banks, e.g. Japan. Both Swiss and U.S. bankers in Switzerland have reported that enactment of U.S. legislation on foreign banks will cause the Swiss authorities to reevaluate their attitude toward U.S. banks, to insure that the reciprocity principle is not violated.

Since the reciprocity provision was added to Swiss banking law in 1971, U.S. banks seeking permission to establish in Switzerland reportedly have encountered growing difficulties in meeting the reciprocity principle, because of the laws and regulations of the states in which their head offices are located. Other problems have involved work permits for foreign personnel, difficulties in establishing a credit base and complying with the credit restrictions imposed by the Swiss National Bank as part of overall monetary policy and easing the real or imagined fears of Swiss officials and Swiss bankers regarding the impact of foreign banks on competition in the Swiss market.

The most significant recent developments for foreign banks in Switzerland have been (a) the promulgation in September 1973 of Bank Commission regulations, taking effect fully at the end of 1974, affecting the capital adequacy requirement, balance sheets, etc., of foreign branches; and (b) the membership of some U.S. banks (both branches and subsidiaries) in the Swiss Bankers Association, subject to a reservation clause with respect to signing conventions, etc. which might cause problems under U.S. antitrust law. Also, some U.S. banks recently have joined the Association of Foreign Banks in Switzerland.

Pursuant to a gentlemen's agreement with the Swiss Bankers Association, foreign financial institutions in Switzerland may not engage directly in domestic securities business, but must deal through a Swiss institution. Entry to local stock exchanges is tightly controlled by rules of the exchanges.

Although foreign bank entry falls under Federal jurisdiction, the Swiss confederal system gives great autonomy to cantonal governments. Depending upon local conditions and the intensity of local competition in banking, foreign bank entry may be a laborious and time consuming process even after the Swiss Bank Commission has approved establishment. Also, at least in the first instance, the cantonal authorities control the issuance of foreign labor and other permits essential to doing business. Thus, foreign banks seeking to establish

in Switzerland find that they are obliged to make numerous applications and appeals before they can open for business.

UNITED KINGDOM

U.K. banking operations are divided roughly into two parts—(1) domestic-sterling and (2) international-Eurocurrency—separated by an exchange control wall. In general, U.S. banks consider that they are not at a competitive disadvantage in terms of Eurocurrency operations, but that a few administrative regulations place them at a competitive disadvantage in domestic operations vis-a-vis U.K. banks and certain third country banks.

In granting "authorized bank" status to a foreign branch, the Bank of England uses administrative discretion. It considers the foreign bank's reputation, balance sheet, and assets which, according to an informal rule, must amount to $1 billion.

In addition, the applicant is asked who its U.K. friends are, i.e., which of the major U.K. clearing and merchant banks are willing to speak up on its behalf and will do business with it; whether it will bring in its own international business; and why it feels it can carry out these transactions more economically in London than elsewhere. If the bank is setting up in London simply for prestige purposes or in hopes of picking up business, rather than bringing in new business, it is likely that the Bank of England will not grant it authorized status and might instead encourage the establishment of a representative office or a consortium operation.

Applicants denied authorized bank status by the Bank of England are prohibited from dealing in international currencies and from implementing certain types of exchange control transactions. As a result, foreign currency operations then involve the added cost of commission charges.

Although the overwhelming majority of U.S. banks in London fall under the jurisdiction of the Bank of England, there are many fringe banking operations whose activities are covered by the Department of Trade, formerly the Board of Trade. These are the so-called Section 123 banks. Only one U.S. bank is shown to have established under Section 123, after being refused permission by the Bank of England to become an authorized bank.

U.S. bankers mention the following competitive disadvantages in doing domestic business in the United Kingdom.

1. Sterling paper that is issued or accepted by U.S. and certain other foreign banks cannot be rediscounted with the Bank of England or counted for reserve asset purposes. The Bank of England contends that it cannot accept for rediscount the paper issued by bank (a) whose home offices are not in the United Kingdom and (b) which are not subject to the policy directives of the Bank of England or which could be subjected to differing central bank directives.

2. Export credits made by U.S. banks guaranteed by the Export Credits Guarantee Department are also ineligible for rediscount at the Bank of England. Such paper issued by the clearing banks and U.K. merchant banks can be rediscounted automatically at the Bank of England once a certain limit is reached.

3. U.S. and some other foreign banks cannot accept certain deposits made by building societies and other protected financial institutions, presumably because they do not offer full banking services through branches in the entire country.

(Certain British overseas and Commonwealth banks are able to benefit from the privileges outlined in points 1–3 above because the Commonwealth banks for generations were able to rediscount bills at the Bank of England when these institutions were run from London. When the former colonies became independent pre-existing privileges were continued.)

4. U.S. banks cannot maintain a special clearing account (a "Z" account) with the Bank of England. This type account enables U.K. domestic banks dealing in the U.K. gilt-edged securities market to clear these securities at the Bank of England. However, only a few major U.S. banks reportedly are inconvenienced by inability to obtain such an account.

U.S. bankers in London complain less about bank regulations than about the U.K. Inland Revenue rules or regulations governing corporate and personal taxation. Banker complaints center on Inland Revenue's requirements that a profit be attributed to U.K. funding operations and also on the recent increase in the U.K. corporate tax rate from 40 to 52 percent. As a result of tax rules,

U.S. banks tend to book in London only business which is attributable to the United Kingdom. Most complaints concern international activities in the Eurocurrency markets rather than domestic activities in the sterling market.

No restrictions are known that place authorized U.S. banks at a competitive disadvantage with U.K. banks in terms of consumer financing, nonbank activities, nonfinancial activities, or in placing securities transactions through domestic brokers.

Neither foreign nor U.K. banks are members of the London Stock Exchange. They place orders for customers through U.K. stockbrokers.

U.S. banks enjoy a de facto competitive advantage over U.K. clearing banks in that U.K. clearing banks are unionized while U.S. banks are not. Thus, U.S. banks may open "money shops," essentially personal finance centers, that they open on Saturday which U.K. banks cannot because of union opposition.

The Bank of England views reciprocity requirements as anathema to its attempt to maintain London as a primary center for international finance. It sees most benefits of an international center accruing to the host country, and sees no sense in requiring reciprocity, which is believes could limit the number of foreign banks establishing in London.

U.S. bankers indicate that the Bank of England is fair and evenhanded in its treatment of U.S. banks seeking authorized bank status.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

APR 27 1976

Dear Mr. Chairman:

This is in response to questions contained in your letter of March 25 concerning S.958, the legislation proposed by the Federal Reserve Board to regulate foreign banking activities in the United States.

1. The Administration believes it desirable to establish a national policy over foreign banking activities in the United States through enactment of responsible Federal legislation. We support the general thrust of S.958 and encourage its enactment. As to questions of timing, we defer to the Banking Committee's judgment whether there should be a temporary delay in further work on S.958, while Congress reconsiders the McFadden and Glass-Steagall Act prohibitions applicable to domestic banks. However, should the reviews of these existing prohibitions not be completed in a short time, we would favor moving ahead separately with S.958.

2&3. The Administration understands the concerns of former FDIC Chairman Wille regarding potential risk to the FDIC from insuring affiliates of foreign banks without having sufficient regulatory authority over the parent. We testified against the S.958 provision requiring that foreign banks operating in the United States obtain FDIC insurance for these U.S. operations; instead we proposed that optional FDIC insurance be made available to U.S. branches of foreign banks. The insurance requirement of S.958 would discriminate against foreign banks, since domestically-owned State banks that are neither members of the Federal Reserve System nor subsidiaries of bank holding companies are not obliged to be insured. Furthermore, that requirement would have the effect of forcing many foreign banks to establish their U.S. operations as subsidiaries rather than branches, because of substantial practical problems involved in insuring branches of foreign banks. There have been suggestions that the FDIC's risk could be alleviated by directing insurance requirements

at the foreign parent bank instead of the U.S. affiliate; however, this approach would not be satisfactory, because it would involve all of the complications and potential conflicts of law inherent in the extraterritorial application of U.S. law. One possible solution that might be studied is the surety-deposit approach, whereby U.S. branches of foreign banks would set aside a surety deposit, bond, or an equivalent amount of U.S. Treasury bills with the FDIC to protect domestic deposits. We would seek to insure that, in conformity with our treaty obligations, such an approach would not place discriminatorily burdensome obligations on foreign branches already operating in the U.S.

4. We do not favor using the Bank Holding Company Act as a vehicle to establish a Federal presence over foreign banking in the United States. Instead, we recommend amending various bank regulatory laws to bring U.S. activities of foreign banks within their coverage.

5. The Administration favors extending the dual banking system to U.S. affiliates of foreign banks by providing Federal chartering options. To be consistent with treatment of domestically-owned banks, it seems desirable to place regulation of such foreign banks in the hands of the Comptroller of the Currency who already regulates Federally-chartered domestic banks.

6. While broker dealer affiliates of foreign banks with U.S. banking offices have increased their participation in domestic corporate underwritings, their relative participation is small and has remained almost constant when compared to the aggregate capital raised in the corporate securities markets (only three one-hundredths of one percent). According to the Securities Industry Association, these broker dealer affiliates participated in $840.5 million of corporate underwritings in the first half of 1975, up from $823.7 million in all of 1974. The absolute dollar increases in participations by such firms should be measured against a proportionately large increase in the overall amount of domestic corporate underwritings from $30.3 billion for the full year of 1974 to $27.9 billion in the first half of 1975.

7. We believe that the Federal Government has a legitimate role to play concerning foreign bank operations in the United States, because foreign banks are truly international in scope and because their main domestic competitors are supervised already by the Federal Government. Since the domestic competitors of foreign banks with U.S. operations may not engage in multistate branching, an argument can be made on competitive grounds that in the future all new foreign bank operations in the U.S. should be subject to similar restrictions. However, in applying such future restrictions, existing multistate operations of foreign banks in the United States should be grandfathered, since they were established in full compliance with then-existing laws. This is consistent with the grandfathering of non-conforming activities that was provided for in the Bank Holding Company Act of 1956.

8. We believe the two situations are not really comparable. Through Edge Act Corporations and loan production offices, domestically-owned banks can conduct certain operations in more than one state. But these multistate operations are limited in scope, in contrast to the full scale branching opportunities available to foreign banks in certain States. A purpose behind S.958 is to limit the opportunities of foreign banks to engage in such full scale multistate branching to those available to domestic banks, unless and until a general change in the law applicable to both is arrived at.

9. Our endorsement of a Federal role over U.S. affiliates of foreign banks should not be read to imply that State regulation is inadequate. It does reflect our belief that foreign bank operations in the United States have implications for national, as well as State interests and that therefore some Federal role is desirable.

10. We are not aware of any practices of foreign banks in the United States which might be considered abuses. The case for establishing a national policy for foreign bank activities in the U.S. is not based upon any abuses of existing law; rather it stems from a desire to establish greater competitive equality between foreign-owned and domestically-owned banks in the U.S.

11. United States policy toward foreign investment in this country is not based upon considerations of reciprocity. We think it inadvisable to discriminate among foreign investors based upon the policies of their various countries of origin. Our general policy reflects an open-door approach. We neither impose special barriers to foreign investment in the United States (except for a few long-standing, internationally-recognized restrictions) nor offer special incentives for such investment. Furthermore, once established here, foreign investors are generally treated equally with domestic investors, that is, they are accorded "national treatment".

12. Foreign banking activity in the United States and U.S. banking activity abroad grew rapidly in the past decade. Foreign bank assets in the United States increased from about $6.5 billion at the end of 1966 to $64.3 billion at the end of 1975. At the same time, total assets of foreign branches of U.S. banks grew from $12.4 billion to $175.9 billion. Adding the assets of foreign subsidiaries of U.S. banks would raise the total for end of 1975 by $15-20 billion. This growth in international banking seems to have been related largely to the rapid growth in international trade and the need to finance this trade. We would assume that this close relationship between the growth of international banking and of international trade will continue. In addition, we notice that both in the U.S. and abroad there has been some movement of foreign banks into retail banking.

Comments on Suggested Legislative Approach

Your suggested legislative approach to establish better Federal control over foreign banking in the United States is a well-reasoned contribution which possesses many similarities to S.958. It would open up some opportunities now denied to foreign banks in the United States by establishing a Federal chartering alternative for foreign banks and by making FDIC insurance (apparently on an optional basis) available to U.S. offices of foreign banks. These proposals are consistent with Administration views.

You also suggest that a few additional regulations (such as mandatory Federal Reserve reserve requirements and mandatory Federal registration and reporting requirements) be

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applied to foreign-owned banks. Such regulations may be justifiable for reasons of improving monetary and credit control over a growing sector of the banking industry. However, it is also possible that imposition of such regulations might be perceived as a discriminatory action by U.S. authorities and in some circumstances even a possible violation of our treaties of Friendship, Commerce and Navigation. (We are enclosing for your reference a copy of a State Department memorandum on treaties of Friendship, Commerce and Navigation.)

Finally, you propose that multistate branching could still be open to foreign banks and that securities affiliates of foreign banks could be frozen in place pending Congressional resolution of the Glass-Steagall issue for domestic banks. A decision to allow foreign banks to continue to engage in multistate branching when State authorities so permit probably adds competition to local banking markets. On the other hand, it may also give foreign banks something of a competitive edge over domestic banks that cannot multistate branch. "Red flagging" the securities affiliates of foreign banks to prevent an expansion of operations pending resolution of the Glass-Steagall issue is a thoughtful proposal. However, it has the disadvantage of creating substantial and fundamental uncertainty for existing securities affiliates until the domestic Glass-Steagall issue is finally resolved.

With best wishes,

Sincerely yours,

George H. Dixon

The Honorable
Thomas J. McIntyre, Chairman
Subcommittee on Financial Institutions
United States Senate
Washington, D.C. 20510

Enclosure

DEPARTMENT OF STATE

Washington, D.C. 20520

MEMORANDUM March 23, 1976

TO: Committee on Foreign Investment in the United States

FROM: Paul Boeker, Deputy Assistant Secretary for Economic and Business Affairs, Department of State

SUBJECT: Treaties of Friendship, Commerce and Navigation

In commenting upon legislation proposed by Congress or being considered by the executive branch, the question often arises as to whether such legislation is in conformity with the obligations of the United States contained under our numerous treaties of Friendship, Commerce and Navigation (FCNs). (A list of those countries with which we have such agreements is annexed hereto).

Background knowledge on the function and content of FCNs in the investment area would, we believe, be useful in order that comments on particular legislation could be placed in context. The review places a certain emphasis on the banking area as this is the field with which much recent legislation has dealt.

The FCN Treaty

The traditional FCN is designed to establish an agreed framework within which mutually beneficial economic relations between two countries can take place. The executive branch has long regarded these treaties as an important element in promoting our national interest and building a strong world economy.

To the benefit of the US, the treaties establish a comprehensive basis for the protection of American commerce and citizens and their business and other

interests abroad, including the right to prompt, adequate and effective compensation in the event of nationalization. However, the FCN treaties are not one-sided. Rights assured to Americans in foreign countries are also assured in equivalent measure to foreigners in this country.

From the viewpoint of economic foreign policy one goal of the FCNs was the desire to establish agreed legal conditions favorable to private investment. The heart of "modern" (i.e., post World War II) FCN treaties (and those with our OECD partners are generally of this type) is the provision relating to the establishment and operation of companies. This provision may be divided into two parts: (1) the right to establish and acquire majority interests in enterprises in the territory of the other party is governed by the "national treatment" standard. (National treatment is defined in the treaties as "treatment accorded within the territories of a contracting party upon terms no less favorable than the treatment accorded therein, in like situations, to nations, companies, products, vessels or other objects, as the case may be, of such party." The treaties generally also provide that "National treatment accorded under the provisions of the present Treaty to companies of [country] shall, in any State, Territory or possession of the United States of America, be the treatment accorded therein to companies created or organized in other States, Territories, and possessions of the United States of America.")

(2) the "controlled" domestic company is itself assured national treatment, and discrimination against it in any way by reason of its domination by nationals of the foreign co-signatory to the FCN Treaty is generally forbidden.

Modern FCNs do exempt certain areas from the "national treatment" standard in order to conform with laws and/or policies in existence when the treaties were negotiated and in order not to infringe upon other treaty obligations of the United States or our national security interests. Thus, the treaties

reserve the right of the Parties to limit the extent to which aliens may establish, acquire interests in or carry on enterprises engaged within its territories in communications, air or water transport, trusts, exploitation of natural resources and banking involving depository or fiduciary functions. The Parties may not, however, deny to transportation, communications or banking companies the right to maintain branches or agencies to perform functions necessary for essentially international operations and must, except insofar as depository or fiduciary functions for banks are concerned, accord national treatment in connection with these activities. In the event that new limitations in the application of national treatment are enacted, such discriminatory legislation can be applied only with respect to entities established after the date of the new restrictions. To the extent that entities already operating in the United States enjoy national treatment, such enjoyment may not be limited by any new legislation which discriminates between US and foreign establishments. Thus, rights to national treatment that have been enjoyed up to the date the new restrictions take effect must be grandfathered. No provision of the standard treaty, however, precludes the imposition of new regulations which apply equally to existing domestic and foreign-owned entities. The treaties contain no "grandfather" clause which would require better treatment for foreign-owned establishments than that accorded to enterprises owned and controlled by United States nationals.

Typical of these key provisions is Article VII of the Treaty of Friendship, Commerce and Navigation between the United States and Federal Republic of Germany of October 29, 1954 (TIAS 3593), which provides in part:

> 1. Nationals and companies of either Party shall be accorded, within the territories of the other Party, national treatment with respect to engaging in all types of commercial, industrial, financial and other activity for gain, whether in a dependent or an independent capacity, and whether directly or by agent or through the medium of any form of lawful juridical entity. Accordingly, such nationals and companies shall be permitted within such territories: (a) to establish and maintain branches, agencies, offices,

factories and other establishments appropriate to the conduct of their business; (b) to organize companies under the general company laws of such other Party, and to acquire majority interests in companies of such other Party; and (c) to control and manage enterprises which they have established or acquired. Moreover, enterprises which they control, whether in the form of individual proprietorships, companies or otherwise, shall in all that relates to the conduct of the activities thereof, be accorded treatment no less favorable than that accorded like enterprises controlled by nationals or companies of such other Party.

2. Each Party reserves the right to limit the extent to which aliens may establish, acquire interests in, or carry on enterprises engaged within its territories in communications, air or water transport, taking and administering trusts, banking involving depository functions, or the exploitation of land or other natural resources. However, new limitations imposed by either Party upon the extent to which aliens are accorded national treatment, with respect to carrying on such activities within its territories, shall not be applied as against enterprises which are engaged in such activities therein at the time such new limitations are adopted and which are owned or controlled by nationals or companies of the other Party. Moreover, neither Party shall deny to transportation, communications and banking companies of the other Party the right to maintain branches and agencies, in conformity with the applicable laws and regulations to perform functions necessary for essentially international operations in which they engage.

See also Treaty of Friendship, Commerce and Navigation between the United States and Japan of April 2, 1953 (4 UST 2063), Article VII:2; Treaty of Friendship, Establishment and Navigation between the United States and Belgium of February 21, 1961 (14 UST 1284), Article 6:5; Treaty of Friendship, Commerce and Navigation between the United States and the Federal Republic of Germany (FRG) of October 29, 1954 (7 UST 1839), Article VII:2.

FRIENDSHIP, COMMERCE, AND NAVIGATION AND SIMILAR TREATIES, IN FORCE IN WHOLE OR IN MAJOR PART

Argentina

Treaty of friendship, commerce and navigation. Signed at San José July 27, 1853. Entered into force December 20, 1854. 10 Stat. 1005; TS 4; I Malloy 20.

Austria

Treaty of friendship, commerce and consular rights. Signed at Vienna June 19, 1928. Entered into force May 27, 1931. 47 Stat. 1876; TS 838; IV Trenwith 3930; 118 LNTS 241.

Supplementary agreement to the treaty of friendship, commerce and consular rights of June 19, 1928. Signed at Vienna January 20, 1931. Entered into force May 27, 1931. 47 Stat. 1899; TS 839; IV Trenwith 3942; 118 LNTS 259.

Belgium

Treaty of friendship, establishment and navigation. Signed at Brussels Feb. 21, 1961. Entered into force Oct. 3, 1963. 14 UST 1284; TIAS 5432; 480 UNTS 149.

Bolivia

Treaty of peace, friendship, commerce and navigation.[1] Signed at La Paz May 13, 1858. Entered into force November 9, 1862. 12 Stat. 1003; TS 32; I Malloy 113.

Brunei

Treaty of peace, friendship, commerce, and navigation. Signed at Brunei June 23, 1850. Entered into force July 11, 1853. 10 Stat. 909; TS 33; I Malloy 130.

China

Treaty of friendship, commerce and navigation, with protocol. Signed at Nanking November 4, 1946. Entered into force November 30, 1948. 63 Stat. 1299; TIAS 1871; 25 UNTS 69.

Colombia

Treaty of peace, amity, navigation and commerce, with additional article. Signed at Bogotá December 12, 1846. Entered into force June 10, 1848. 9 Stat. 881; TS 54; I Malloy 302.

Costa Rica

Treaty of friendship, commerce and navigation. Signed at Washington July 10, 1851. Entered into force May 26, 1852. 10 Stat. 916; TS 62; I Malloy 341.

Denmark

Treaty of friendship, commerce and navigation, with protocol and minutes of interpretation. Signed at Copenhagen October 1, 1951. Entered into force July 30, 1961. 12 UST 908; TIAS 4797; 421 UNTS 105.

Estonia

Treaty of friendship, commerce and consular rights, and protocol. Signed at Washington December 23, 1925. Entered into force May 22, 1926. 44 Stat. 2379; TS 736; IV Trenwith 4105; 50 LNTS 13.

Ethiopia

Treaty of amity and economic relations, and related notes. Signed at Addis Ababa September 7, 1951. Entered into force October 8, 1953. 4 UST 2134; TIAS 2864; 206 UNTS 41.

Finland

Treaty of friendship, commerce, and consular rights, and protocol. Signed at Washington February 13, 1934. Entered into force August 10, 1934. 49 Stat. 2659; TS 868; IV Trenwith 4138; 152 LNTS 45.

Protocol modifying article IV of the treaty of friendship, commerce, and consular rights of February 13, 1934. Signed at Washington December 4, 1952. Entered into force September 24, 1953. 4 UST 2047; TIAS 2861; 205 UNTS 149.

France

Convention of navigation and commerce, with two separate articles. Signed at Washington June 24, 1822. Entered into force February 12, 1823. 8 Stat. 278; TS 87; I Malloy 521.

Agreement modifying the provisions of article VII of the convention of navigation and commerce of June 24, 1822. Signed at Washington July 17, 1919. Entered into force January 10, 1921. 41 Stat. 1723; TS 650; III Redmond 2594.

Convention of establishment, protocol, and declaration. Signed at Paris November 25, 1959. Entered into force December 21, 1960. 11 UST 2398; TIAS 4625; 401 UNTS 75.

Germany, Federal Republic of

Treaty of friendship, commerce and navigation, with protocol and exchanges of notes. Signed at Washington October 29, 1954. Entered into force July 14, 1956. 7 UST 1839; TIAS 3593; 273 UNTS 3.

Greece

Treaty of friendship, commerce and navigation. Signed at Athens August 3, 1951. Entered into force October 13, 1954. 5 UST 1829; TIAS 3057; 224 UNTS 279.

Honduras

Treaty of friendship, commerce and consular rights. Signed at Tegucigalpa December 7, 1927. Entered into force July 19, 1928. 45 Stat. 2618; TS 764; IV Trenwith 4306; 87 LNTS 421.

Iran

Treaty of amity, economic relations, and consular rights. Signed at Tehran August 15, 1955. Entered into force June 16, 1957. 8 UST 899; TIAS 3853; 284 UNTS 93.

Iraq

Treaty of commerce and navigation. Signed at Baghdad December 3, 1938. Entered into force June 19, 1940. 54 Stat. 1790; TS 960; 203 LNTS 107.

Ireland

Treaty of friendship, commerce and navigation, with protocol. Signed at Dublin January 21, 1950. Entered into force September 14, 1950. 1 UST 785; TIAS 2155; 206 UNTS 269.

Israel

Treaty of friendship, commerce and navigation, with protocol and exchange of notes. Signed at Washington August 23, 1951. Entered into force April 3, 1954. 5 UST 550; TIAS 2948; 219 UNTS 237.

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[1] An understanding was effected by exchanges of notes in 1946 that most-favored-nation provisions do not require extension of advantages accorded by the United States to the Philippines. TIAS 1572.

Italy

Treaty of friendship, commerce and navigation, protocol, additional protocol, and exchange of notes. Signed at Rome February 2, 1948. Entered into force July 26, 1949. 63 Stat. 2255; TIAS 1965; 79 UNTS 171.

Agreement supplementing the treaty of friendship, commerce and navigation signed February 2, 1948. Signed at Washington September 26, 1951. Entered into force March 2, 1961. 12 UST 131; TIAS 4685; 404 UNTS 326.

Japan

Treaty of friendship, commerce and navigation, protocol, and exchange of notes of August 29, 1953. Signed at Tokyo April 2, 1953. Entered into force October 30, 1953. 4 UST 2063; TIAS 2863; 206 UNTS 143.

Korea

Treaty of friendship, commerce and navigation, with protocol. Signed at Seoul November 28, 1956. Entered into force November 7, 1957. 8 UST 2217; TIAS 3947; 302 UNTS 281.

Latvia

Treaty of friendship, commerce and consular rights. Signed at Riga April 20, 1928. Entered into force July 25, 1928. 45 Stat. 2641; TS 765; IV Trenwith 4490; 80 LNTS 35.

Liberia

Treaty of friendship, commerce and navigation. Signed at Monrovia August 8, 1938. Entered into force November 21, 1939. 54 Stat. 1739; TS 956; 201 LNTS 163.

Luxembourg

Treaty of friendship, establishment and navigation. Signed at Luxembourg February 23, 1962. Entered into force March 28, 1963. 14 UST 251; TIAS 5306; 474 UNTS 3.

Malagasy Republic

French convention of 1822 as modified in 1919 applies.

Malta

United Kingdom conventions applicable to Malta.

Morocco

Treaty of peace. Signed at Meccanez September 16, 1836. Entered into force January 28, 1837. 8 Stat. 484; TS 244-2; 1 Malloy 1212.

✓ **Muscat and Oman**

Treaty of amity, economic relations and consular rights and protocol. Signed at Salalah December 20, 1958. Entered into force June 11, 1960. 11 UST 1835; TIAS 4530; 380 UNTS 181.

Netherlands

Treaty of friendship, commerce and navigation, with protocol and exchange of notes. Signed at The Hague March 27, 1956. Entered into force December 5, 1957. 8 UST 2043; TIAS 3942; 285 UNTS 231.

Nicaragua

Treaty of friendship, commerce and navigation, and protocol. Signed at Managua January 21, 1956. Entered into force May 24, 1958. 9 UST 449; TIAS 4024. 367 UNTS 3.

[1] An understanding was effected by exchanges of notes in 1946 that most-favored-nation provisions do not require extension of advantages accorded by the United States to the Philippines. TIAS 1572.

Norway

Treaty of friendship, commerce and consular rights, with exchange of notes and an additional article.[1] Signed at Washington June 5, 1928. Entered into force September 13, 1932. 47 Stat. 2135; TS 852; IV Trenwith 4527; 134 LNTS 81.

Pakistan

Treaty of friendship and commerce, and protocol. Signed at Washington November 12, 1959. Entered into force February 12, 1961. 12 UST 110; TIAS 4683; 404 UNTS 259.

Paraguay

Treaty of friendship, commerce and navigation. Signed at Asunción February 4, 1859. Entered into force March 7, 1860. 12 Stat. 1091; TS 272; II Malloy 1364.

Saudi Arabia

Spain

Treaty of friendship and general relations. Signed at Madrid July 3, 1902. Entered into force April 14, 1903. 33 Stat. 2105; TS 422; II Malloy 1701.

Switzerland

Convention of friendship, commerce and extradition. Signed at Bern November 25, 1850. Entered into force November 8, 1855. 11 Stat. 587; TS 353; II Malloy 1763.

Tanzania

Treaty of amity and commerce with Muscat. Signed at Muscat September 21, 1833. Accepted by Zanzibar October 20, 1879. 8 Stat. 458; TS 247; I Malloy 1228.

Thailand

Treaty of amity and economic relations. Signed at Bangkok May 29, 1966. Entered into force June 8, 1968. TIAS 6540.

Togolese Republic

Treaty of amity and economic relations. Signed at Lomé February 8, 1966. Entered into force February 5, 1967. 18 UST 1; TIAS 6193.

Turkey

Treaty of commerce and navigation. Signed at Ankara October 1, 1929. Entered into force April 22, 1930. 46 Stat. 2743; TS 813; IV Trenwith 4667; 114 LNTS 499.

Treaty of establishment and sojourn. Signed at Ankara October 28, 1931. Entered into force February 15, 1933. 47 Stat. 2432; TS 859; IV Trenwith 4670; 138 LNTS 345.

United Kingdom

Convention to regulate commerce. Signed at London July 3, 1815. Entered into force July 3, 1815. 8 Stat. 228; TS 110; I Malloy 624.

Convention continuing in force indefinitely the convention of July 3, 1815. Signed at London August 6, 1827. Entered into force April 2, 1828. 8 Stat. 361; TS 117; I Malloy 645.

Viet-Nam

Treaty of amity and economic relations. Signed at Saigon April 3, 1961. Entered into force November 30, 1961. 12 UST 1703; TIAS 4890; 424 UNTS 137.

Yugoslavia

Treaty of commerce.[1] Signed at Belgrade October 2/14, 1881. Entered into force November 15, 1882. 22 Stat. 963; TS 319; II Malloy 1613.

Statement by

Frank Wille, Chairman
Federal Deposit Insurance Corporation

I appreciate this opportunity to submit the Corporation's views on S. 958, 94th Congress, the "Foreign Bank Act of 1975."

Presently, foreign banks can operate in the United States through domestically incorporated banking subsidiaries or through direct branches or agencies in a few States (primarily New York, California, Illinois and Massachusetts). To the extent that a foreign bank chooses to operate in this country through domestically incorporated banking subsidiaries, its domestic operations are generally subject to the same rules under the Bank Holding Company Act which govern the U. S. activities of domestic bank holding companies, with limited exceptions not here relevant covering certain nonbanking activities permitted by Federal Reserve regulations issued under section 4(c)(9) of that Act. However, to the extent that a foreign bank operates domestically through branches or agencies, it may escape certain restrictions and requirements applicable to domestic banking organizations -- mainly in the two areas of operating offices in more than one State and being affiliated with companies engaged in a securities business. This is due, essentially, to the fact that under present law such branches and agencies are not defined as "banks" under the Bank Holding Company Act.

The bill would attempt to remedy this unequal regulatory treatment of foreign and domestic banks by defining "bank" under the Bank Holding Company Act to include "branch," thus subjecting all domestic operations of foreign banks to Federal Reserve jurisdiction under that Act. The bill would also require Federal Reserve membership for all U. S. branches, agencies and subsidiaries of foreign banks having total world-wide bank

assets of more than $500 million and would require that the deposits of a domestic branch, agency or subsidiary of a foreign bank be insured by the FDIC.

While the Corporation fully supports the objective of establishing parity of regulatory treatment between the domestic operations of foreign banks and those of domestic banking organizations, we believe the Federal Reserve bill derogates from this principle of equal national treatment by imposing mandatory Federal Reserve membership and mandatory deposit insurance upon foreign banks. There is no comparable requirement under existing law that all domestic banks with assets exceeding $500 million be Federal Reserve members, nor is deposit insurance presently required for domestic nonmember banks unless they are subsidiaries of a bank holding company. Moreover, by requiring deposit insurance for domestic branches and agencies of foreign banks, the bill departs further from the principle of equal national treatment since the FDIC cannot under either existing law or the proposed bill insure the deposits of a branch of a domestic bank separately from those of its head office and other branches of the bank.

The Corporation has serious reservations about the necessity and desirability of making Federal deposit insurance available, even on an optional basis, for domestic branches and agencies of foreign banks. Insofar as these branches and agencies engage in "wholesale" international banking activities, deposit insurance is largely unnecessary. To the extent "wholesale" customers are concerned with Federal insurance of up to $40,000 on their accounts, a requirement that the branches and agencies of foreign banks have such insurance would seem to prefer such foreign bank branches and agencies over

Edge Act corporations owned by U. S. banking organizations which engage in the same type of business and are not covered by deposit insurance. The same requirement would also encourage such branches and agencies to enter or expand their retail banking business in the United States, an option U.S.-owned Edge Act corporations do not have. Furthermore, if foreign banks wish to expand their operations in this country into the retail banking business with the benefit of Federal deposit insurance, they presently have the option under existing law of doing so through a domestically incorporated banking subsidiary. If equal treatment between foreign and domestic banks is the guiding principle of this proposed legislation, then as to Federal deposit insurance, the present requirements that foreign banks operate through a separately chartered domestic banking subsidiary if they wish to obtain such insurance on their domestic retail deposits should be continued.

Other considerations militate strongly against insuring the deposits of domestic branches and agencies of foreign banks and lead us to the conclusion that the Corporation's supervisory responsibilities could not be administered as effectively, or the trust fund's exposure contained as successfully, with the insurance of such branches and agencies -- even under the most carefully drawn legislation -- as they can be with the insurance granted a domestic banking subsidiary. Some of these considerations are set forth below:

(1) Directors of the foreign bank are not usually subject to U. S. jurisdiction, and domestic branch personnel essential to explain certain transactions can be transferred beyond the reach of U. S. authorities. Also, essential records may be kept at the head office or at branches in other countries.

(2) The domestic branch may be subjected to requirements under foreign law or to political and economic decisions of a foreign government which conflict with domestic bank regulatory policies.

(3) Administrative enforcement proceedings initiated by domestic regulatory authorities against domestic branch personnel may be frustrated or nullified as a result of lack of jurisdiction over the foreign bank's head office and head office personnel.

(4) Many foreign banks are permitted under the law of their headquarters country to engage in business activities which would not be permitted to banks chartered in this country. In addition to potentially increasing the insurance risk, such foreign activities could give rise to antitrust, conflict-of-interest and other legal problems under U. S. law.

(5) In the event of insolvency of the foreign bank, it is possible that:

-- Assets could be easily and quickly shifted <u>from</u> the U. S. branch and out of U. S. jurisdiction, while <u>deposits</u> could be shifted <u>to</u> the U. S. branch. Either move could substantially increase FDIC's insurance exposure far beyond pre-insolvency estimates.

-- Legal obstacles and transactions involving other offices of the foreign bank might prevent FDIC from obtaining the usual subrogation of deposit claims it normally gets from depositors in failed U. S. banks before making the

insurance payment. Even if adequately subrogated, FDIC's aggregate claim in the failed bank's receivership estate might be jeopardized by foreign laws and procedures.

-- Creditors with claims against other offices of the failed bank -- especially banks holding deposits of the U. S. branch -- could attempt offsets against assets in the U. S. or seek preferences over FDIC based on foreign law.

Although an elaborate framework of conditions and restrictions might be imposed by statute upon the foreign bank, premised upon its express or implied consent thereto as a result of its being permitted to operate domestically, the value of such requirements depends ultimately upon either (1) the ability of the U. S. Government to physically enforce such requirements by exercising <u>quasi</u> <u>in</u> <u>rem</u> jurisdiction over the foreign bank's domestic assets and/or obligors or (2) the willingness of foreign governments within whose jurisdictions the foreign bank operates to enforce such requirements.

Efforts to impose requirements designed to insure the presence in the United States of adequate assets of the foreign bank to cover its domestic liabilities could turn out to be of little real value. Just when such protection is most needed (<u>e.g.</u>, hours, days, or weeks before the foreign bank's demise or the outbreak of war) is precisely when the temptation to violate requirements of that kind could become irresistible. The value of this approach is particularly limited in situations where the chartering foreign government condones the foreign bank's efforts to escape U. S. restrictions. Even more importantly, a sincere attempt to impose <u>meaningful</u> restrictions of this type, such as requiring the domestic branch to maintain a substantial portion of its assets in the custody of a third party or in

the form of obligations of domestic obligors or requiring a fidelity bond to guarantee the presence in the U. S. of a stipulated amount of the foreign bank's assets, could prove so onerous or costly for the foreign bank to comply with as to make such restrictions tantamount to a bar against the foreign bank's operating through a domestic branch, if deposit insurance is mandatory, or against opting for insurance, if deposit insurance for branches is optional.

While a substantially greater degree of domestic supervision and regulation might be imposed on domestic branches of foreign banks if deposit insurance is made available to them, to do so might restrict the branches' domestic activities, flexibility, and liquidity, to the point where operating such branches might become wholly impractical for the foreign bank and the expense of supervision disproportionate for domestic regulatory agencies. Even with some grant of extraterritorial power to U. S. examining and supervisory authorities by foreign governments, legal, cultural and economic barriers would certainly arise to the exercise abroad of the type of supervision generally exercised by the Corporation and other bank regulatory agencies in this country over insured domestic banks.

With respect to the willingness of foreign governments to enforce U.S.-imposed restrictions, success in this area could well depend upon the particular foreign government's interest (or that of its nationals) in the assets in question. If such government is essentially a disinterested stakeholder, a prior agreement by the foreign bank to abide by U.S.-imposed rules would presumably carry great weight. In a liquidation or other in extremis setting, of course, the FDIC might be required to pursue elusive or illusory assets from one country to another.

Although some of these same problems presently exist in the case of domestically incorporated subsidiaries of foreign banks, the fact of general U.S. jurisdiction over the separately incorporated subsidiary and its assets has been clearly established. Moreover, at least a majority of the domestic subsidiary's board of directors are generally required to be local residents and therefore more readily subjected to domestic civil and criminal sanctions.

In the Corporation's view, there is no certain way of containing the substantial risks to the FDI fund of insuring the domestic branches of foreign banks. A "window dressing" statutory framework could be devised, but we believe that in the final analysis, its protection might well prove illusory and involve the Corporation in financial loss that cannot be estimated in advance. In determining whether to extend deposit insurance to the U. S. branches and agencies of foreign banks, Congress must balance some conflicting considerations. On the one side there is the desirability of increasing the protection afforded to domestic depositors at these branches (many of whom might not be U. S. citizens, and all of whom could be protected under existing law if the foreign bank organized a domestic subsidiary), and of permitting foreign banks the organizational simplicity and risk-taking flexibility of having a branch or agency in this country rather than a separately incorporated domestic subsidiary, thus encouraging a friendly reception in other countries to the operation there of branches and agencies of U. S. banks. On the other side, the Congress must weigh the substantial potential risks of such insurance to the accumulated deposit insurance fund, and the apparent inequity in expecting these risks to be borne primarily by the 15,000 domestic banks which have contributed to that fund over the years since 1933.

One of the principal reasons for subjecting the domestic operations of foreign banks to the Bank Holding Company Act is functionally to limit their domestic nonbanking activities to those permissible for bank holding companies. This purpose could be equally as well accomplished -- without forcing the domestic operations of foreign banks into the Bank Holding Company Act mold and without compromising the goal of equal national treatment between domestic and foreign banks -- by simply prohibiting any foreign bank from engaging in any activity through its domestic branches, agencies and subsidiaries in any manner that would not be permissible if the foreign bank were a bank holding company. These prohibitions could, we believe, be effectively enforced by the appropriate Federal and State banking authorities which regularly examine the foreign bank's domestic branches, agencies and subsidiaries.

In conclusion, it is our view that the Federal Reserve has established no clear need for regulating foreign bank operations in this country differently from those of domestic banks. We therefore believe that, if existing law stays as it is for domestic banks, both Federal Reserve membership and Federal deposit insurance should be made available to foreign banks' domestic operations only on an <u>optional</u> basis and that if a foreign bank wishes to qualify for Federal deposit insurance, it continue to be required, as at present, to establish a separately incorporated domestic subsidiary. Domestic branches and agencies of foreign banks should not be made eligible for Federal deposit insurance without a full appreciation by the Congress of the substantial financial risks this could entail for the Federal deposit insurance fund.

As indicated above, however, we would have no objection to restricting the future nonbank activities of foreign banks to those that would be permissible for domestic banking organizations. Likewise, we would not object to those provisions in the bill which would permit foreign banks to own Edge Act corporations or which would facilitate their ownership of national banks by relaxing certain statutory requirements relating to the citizenship and residence of national bank directors.

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94TH CONGRESS
1ST SESSION

S. 958

IN THE SENATE OF THE UNITED STATES

MARCH 5, 1975

Mr. PROXMIRE (for himself, Mr. McINTYRE, Mr. STEVENSON, and Mr. TOWER) (by request) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To provide for Federal regulation of foreign banks establishing, acquiring, operating, or controlling banks, branches, and agencies in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Foreign Bank Act of 1975".

AMENDMENTS TO THE BANK HOLDING COMPANY ACT OF 1956

SEC. 2. Section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841) is amended—

(1) by striking out "paragraph (5)" in para-

graph (1) of subsection (a) and inserting in lieu thereof "paragraph (6)";

(2) by redesignating paragraphs (5) and (6) of subsection (a) as paragraphs (6) and (7), respectively, and by adding after paragraph (4) of subsection (a), a new paragraph as follows:

"(5) For the purposes of this Act, any company which is a foreign bank shall also be deemed to have control over a bank, if such bank is a branch or agency of the foreign bank established or operating under the laws of the United States, any State of the United States, or the District of Columbia.";

(3) by adding at the end of subsection (b) the following new sentence: "'Company covered in 1975' means a company which becomes a bank holding company as a result of the enactment of the Foreign Bank Act of 1975 and which would have been a bank holding company on December 3, 1974, if that Act had been enacted on that date.";

(4) by striking out subsection (c) and inserting in lieu thereof the following:

"(c) 'Bank' means (1) any institution organized under the laws of the United States, any State of the United States, or the District of Columbia which (A) accepts deposits that the depositor has a legal right to with-

draw on demand, and (B) engages in the business of making commercial loans, or (2) any branch or agency of a foreign bank established or operating under the laws of the United States, any State of the United States, or the District of Columbia, at which deposits are received, credit balances are maintained incident to or arising out of the exercise of commercial banking powers, checks are paid, money is lent, or other commercial banking activities are performed. Such term does not include (i) any organization operating under section 25 or section 25(a) of the Federal Reserve Act, or (ii) any company organized under the laws of any State of the United States or the District of Columbia which does not do business within the United States except as an incident to its activities outside the United States. 'District Bank' means any bank organized or operating under the Code of Law for the District of Columbia.";

(5) by striking out "or (3)." in subsection (d) and inserting in lieu thereof "(3)";

(6) by striking out the period in subsection (d) and inserting in lieu thereof the following: "; or (4) if such bank holding company either is a foreign bank or has a subsidiary which is a foreign bank, any branch or agency of such foreign bank established or operating under the laws of the United States, any State of the United States, or the District of Columbia."; and

(7) by adding at the end thereof the following new subsections:

"(j) The term 'foreign bank' means any company that is organized or created under the laws of a foreign country and which is principally engaged in the banking business outside the United States. For the purposes of this Act, this term includes, without limitation, foreign commercial banks, foreign merchant banks, and other foreign institutions which engage in banking activities usual in connection with the transaction of the business of banking in the countries where such foreign banks are organized or created.

"(k) The term 'foreign country' means any country other than the United States, and any colony, dependency, or possession of any such country, and includes, for the purposes of this Act, any territory of the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands.

"(l) A 'foreign bank holding company covered in 1975' means a company that became a bank holding company prior to the date of enactment of the Foreign Bank Act of 1975 and which has a subsidiary that is defined as a 'bank' as a result of the enactment of the Foreign Bank Act of 1975."

SEC. 3. Section 3 of the Bank Holding Company Act of 1956 (12 U.S.C. 1842) is amended—

(1) by striking out the first sentence of subsection

(b) and inserting in lieu thereof the following: "Upon receiving from a company any application for approval under this section, the Board shall give notice to the Comptroller of the Currency, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association or a District bank, or if the bank sought to be acquired is a branch of a foreign bank established under section 18 of the Foreign Bank Act of 1975, or a branch or agency of a foreign bank established or operating under the Code of Law for the District of Columbia, or to the appropriate supervisory authority of the interested State, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank, or if the bank sought to be acquired is a branch or agency of a foreign bank established or operating under the laws of any State of the United States, and shall allow thirty days within which the views and recommendations of the Comptroller of the Currency or the State supervisory authority, as the case may be, may be submitted.";

(2) by striking out subsection (d) and inserting in lieu thereof the following:

"(d) Except as provided in subsection (g) of this section, no application shall be approved under this section

which will permit any bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any additional bank located outside of the State in which the operations of such bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which such company became a bank holding company, whichever is later, unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication. For the purposes of this section, the State in which the operations of a bank holding company's subsidiaries are principally conducted is that State in which total deposits of all such banking subsidiaries are largest: *Provided, however,* That for the purposes of this section, the State in which the operations of a bank holding company's subsidiaries are principally conducted for any company which becomes, as a result of the enactment of the Foreign Bank Act of 1975, a bank holding company on the date of such enactment, is that State in which total assets of all such banking subsidiaries are greatest."; and

(3) by adding at the end thereof the following new subsections:

"(f) Every bank that is a subsidiary of a holding com-

pany (1) which is a foreign bank having total worldwide bank assets in excess of $500,000,000, (2) which is organized under the laws of a foreign country and owns or controls a foreign bank having total worldwide bank assets in excess of $500,000,000, or (3) of which control is held directly or indirectly by the shareholders of a foreign bank having total worldwide bank assets in excess of $500,000,000, the majority of whom are not citizens of the United States or companies controlled by citizens of the United States, shall become and remain a member bank as such term is defined in section 1 of the Federal Reserve Act.

"(g) Notwithstanding any other provision of this section, a company covered in 1975 and a foreign bank holding company covered in 1975 may retain and operate all branches and agencies of foreign banks which, as a result of the enactment of the Foreign Bank Act of 1975, are defined as banks under section 2 (c) and which such company had established on or before December 3, 1974. After the date of enactment of the Foreign Bank Act of 1975, no application shall be approved under this section which will permit any bank holding company or any subsidiary thereof to establish or operate any additional branch or agency of a foreign bank located outside of the State in which the operations of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section, un-

less (1) the establishment or operation of such a branch or agency is specifically authorized to State banks by the statute laws of the State in which the operations of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section, by language to that effect and not merely by implication, and (2) the statute laws of the State in which such branch or agency is to be located specifically authorize an out-of-State bank organized under the laws of the State in which the operations of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section, to establish or operate such a branch or agency, by language to that effect and not merely by implication: *Provided, however,* That applications may be approved under this section for any such bank holding company or any subsidiary thereof (A) to establish an additional branch of a foreign bank in any State where such bank holding company or subsidiary thereof had established a branch of a foreign bank on or before December 3, 1974, if the establishment or operation of such additional branch is specifically authorized by the statute laws of the State in which such additional branch is to be located, and (B) to establish an additional agency of a foreign bank in any State where such bank holding company or subsidiary thereof had established an agency of a foreign bank on or before December 3, 1974, if the es-

tablishment or operation of such additional agency is specifically authorized by the statute laws of the State in which such additional agency is to be located. For the purposes of this subsection and subsection (d) of this section, a company covered in 1975 or a foreign bank holding company covered in 1975 or any subsidiary thereof shall not be deemed to have established an additional branch or agency of a foreign bank, or acquired another additional bank located outside of the State in which the operations of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section, if such bank holding company or subsidiary thereof changes or converts a branch or agency referred to in the preceding proviso into a branch, agency, or other form of banking organization, as the case may be. Notwithstanding any such conversion, this subsection shall not prohibit a company covered in 1975 or a foreign bank holding company covered in 1975 or any subsidiary thereof from applying to establish additional branches or agencies under the preceding proviso: *Provided, however,* That for the purposes of such proviso, any such company or subsidiary thereof may only establish additional branches if it has converted its form of banking organization in that State to a branch, and may only establish additional agencies if it has converted its form

of banking organization in that State to an agency. For the purposes of this subsection, a branch or agency of a foreign bank shall be considered as 'established', if the foreign bank has been granted a license, certificate of authority, or other necessary approval to operate such branch or agency by the appropriate State supervisory authority. Notwithstanding any other provision of this subsection, no company covered in 1975, no foreign bank holding company covered in 1975, and no subsidiary thereof, shall at any time own or control in any State outside of the State in which the operation of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section, (i) both a branch and agency of the same foreign bank, (ii) both a branch of a foreign bank and a national or State bank, or (iii) both an agency of a foreign bank and a national or State bank, unless such company, or any subsidiary thereof, had acquired or established both such banking subsidiaries in such State on or before December 3, 1974.

"(h) Except as provided in subsection (g) of this section, after two years from the date of enactment of the Foreign Bank Act of 1975, no company which becomes, as a result of the enactment of the Foreign Bank Act of 1975, a bank holding company on the date of such enactment, no foreign bank holding company covered in 1975, and no subsidiary thereof may, directly or indirectly, own, control,

or operate any bank that is a branch or agency of a foreign bank in any State outside the State in which the operations of such bank holding company's banking subsidiaries are principally conducted as determined in subsection (d) of this section. The Board is authorized, upon application by a bank holding company, to extend the two-year period referred to above from time to time as to such bank holding company for not more than one year at a time, if, in its judgment, such an extension would not be detrimental to the public interest, but no such extension shall in the aggregate exceed three years."

SEC. 4. Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843) is amended—

(1) by striking out paragraph (2) of subsection (a) and inserting in lieu thereof the following:

"(2) after two years from the date as of which it becomes a bank holding company, or in the case of a company which has been continuously affiliated since May 15, 1955, with a company which was registered under the Investment Company Act of 1940, prior to May 15, 1955, in such a manner as to constitute an affiliated company within the meaning of that Act, after December 31, 1978, or in the case of any company which becomes, as a result of the enactment of the Bank Holding Company Act Amendments of 1970, a bank

holding company on the date of such enactment, after December 31, 1980, or in the case of any company which becomes, as a result of the enactment of the Foreign Bank Act of 1975, a bank holding company on the date of such enactment, after December 31, 1985, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or bank holding company or engage in any activities other than (A) those of banking or of managing or controlling banks and other subsidiaries authorized under this Act or of furnishing services to or performing services for its subsidiaries, and (B) those permitted under paragraph (8) of subsection (c) of this section subject to all the conditions specified in such paragraph or in any order or regulation issued by the Board under such paragraph: *Provided*, That a company covered in 1970 may also engage in those activities in which directly or through a subsidiary (i) it was lawfully engaged on June 30, 1968 (or on a date subsequent to June 30, 1968, in the case of activities carried on as the result of the acquisition by such company or subsidiary, pursuant to a binding written contract entered into on or before June 30, 1968, of another company engaged in such activities at the time of the acquisition), and (ii) it has been continuously engaged since June 30, 1968 (or such sub-

sequent date): *Provided further*, That a company covered in 1975 may also engage in those activities in which directly or through a subsidiary (i) it was lawfully engaged on December 3, 1974 (or on a date subsequent to December 3, 1974, in the case of activities carried on as the result of the acquisition by such company or subsidiary, pursuant to a binding written contract entered into on or before December 3, 1974, of another company engaged in such activities at the time of the acquisition), and (ii) it has been continuously engaged since December 3, 1974 (or such subsequent date). The Board by order, after opportunity for hearing, may terminate the authority conferred by the preceding provisos on any company to engage directly or through a subsidiary in any activity otherwise permitted by those provisos if it determines, having due regard to the purposes of this Act, that such action is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices; and in the case of any such company controlling a bank having bank assets in excess of $60,000,000 on or after the date of enactment of the Bank Holding Company Act Amendments of 1970 the Board shall determine, within two years after such date (or, if later, within two years after the date on which the bank

assets first exceed $60,000,000), whether the authority conferred by the preceding first proviso with respect to such company should be terminated as provided in this sentence. Nothing in this paragraph shall be construed to authorize (1) any bank holding company referred to in the preceding first proviso, or any subsidiary thereof, to engage in activities authorized by that proviso through the acquisition, pursuant to a contract entered into after June 30, 1968, of any interest in or the assets of a going concern engaged in such activities; or (2) any bank holding company referred to in the preceding second proviso, or any subsidiary thereof, to engage in activities authorized by that proviso either through the acquisition, pursuant to a contract entered into after December 3, 1974, of any interest in or the assets of a going concern engaged in such activities, or through the acquisition after December 3, 1974 (except pursuant to a binding written contract entered into before December 3, 1974), of any shares of, interest in, or assets of any company, or any branch or agency of a foreign bank, engaged or to be engaged in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities in the United States. Any company which is authorized

to engage in any activity pursuant to the preceding provisos or subsection (d) of this section but, as a result of action of the Board, is required to terminate such activity may (notwithstanding any otherwise applicable time limit prescribed in this paragraph) retain the ownership or control of shares in any company carrying on such activity for a period of ten years from the date on which its authority was so terminated by the Board.";

(2) by striking out paragraph (12) of subsection (c) and inserting in lieu thereof the following:

"(12) shares retained or acquired, or activities engaged in, by any company which becomes, as a result of the enactment of the Bank Holding Company Act Amendments of 1970, a bank holding company on the date of such enactment, or which becomes, as a result of the enactment of the Foreign Bank Act of 1975, a bank holding company on the date of such enactment, or by any subsidiary thereof, if such company—

"(A) within the applicable time limits prescribed in subsection (a) (2) of this section (i) ceases to be a bank holding company, or (ii) ceases to retain direct or indirect ownership or control of those shares and to engage in those activities not authorized under this section; and

"(B) complies with such other conditions as the Board may by regulation or order prescribe;"; and

(3) by striking out the period at the end of paragraph (13) and inserting in lieu thereof "; or", and by adding after paragraph (13) the following new paragraph:

"(14) shares owned directly or indirectly by a company covered in 1975 in a company which does not engage in any activities other than those in which the bank holding company, or its subsidiaries, may engage by virtue of this section, but nothing in this paragraph authorizes any bank holding company, or subsidiary thereof, to acquire (A) any interest in or the assets of any going concern (except pursuant to a binding written contract entered into before December 3, 1974, or pursuant to another provision of this Act) other than one which was a subsidiary on December 3, 1974, or (B) any shares of, interest in, or the assets of any company, or any branch or agency of a foreign bank, engaged, or to be engaged, in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities in the United States, other than one which was a subsidiary on December 3,

1974, or which was acquired pursuant to a binding written contract entered into before such date."

FEDERAL RESERVE ACT AMENDMENTS

SEC. 5. Section 1 of the Federal Reserve Act (12 U.S.C. 221) is amended to read as follows: "Whenever the word 'bank' is used in this Act, the word shall be held to include State bank, banking association, and trust company, and any branch or agency of a foreign bank established or operating under the laws of any State of the United States, except where national banks, Federal branch banks, or Federal reserve banks are specifically referred to.

"The terms 'national bank' and 'national banking association' used in this Act shall be held to be synonymous and interchanageable. The term 'federal branch bank' shall be held to mean any branch of a foreign bank that is established and operating under section 18 of the Foreign Bank Act of 1975. The term 'member bank' shall be held to mean any national bank, Federal branch bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term 'board' shall be held to mean Board of Governors of the Federal Reserve System; the term 'district' shall be held to mean Federal reserve district; the term 'reserve bank' shall be held to mean Federal reserve bank; the term 'the continental United

States' means the States of the United States and the District of Columbia.".

SEC. 6. Section 2 of the Federal Reserve Act is amended—

(1) by striking out the last sentence of the first paragraph thereof (12 U.S.C. 222) and inserting in lieu thereof the following: "Every national bank and every Federal branch bank in any State shall, upon commencing business or within ninety days after admission into the Union of the State in which it is located, become a member bank of the Federal Reserve System by subscribing and paying for stock in the Federal reserve bank of its district in accordance with the provisions of this Act and every national bank and every Federal branch bank shall thereupon be an insured bank under the Federal Deposit Insurance Act, and failure to do so shall subject such bank to the penalty provided by the sixth paragraph of this section.";

(2) by adding at the end of the third paragraph thereof (12 U.S.C. 282) a new sentence as follows: "Every Federal branch bank within each Federal reserve district shall subscribe to the capital stock of the Federal reserve bank for that district in a sum equal to 6 per centum of the paid in capital stock equivalent required to be deposited by the foreign bank holding a certificate

of authority to establish and operate such Federal branch bank, which shall be payable in the same manner as that prescribed for a national banking association in this section."; and

(3) by inserting after the second sentence of the sixth paragraph thereof (12 U.S.C. 501a), a new sentence as follows: "Should any Federal branch bank fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such bank granted to it under section 18 of the Foreign Bank Act of 1975, or under the provisions of this Act, shall be thereby forfeited in accordance with the same procedures applicable to national banking associations: *Provided, however,* That, except as otherwise provided in this Act, any reference in the provisions of this Act to the capital stock and surplus of a member bank or national banking association shall, for the purpose of applying any limitations or restrictions in such provisions to any Federal branch bank, be deemed to be a reference to the dollar equivalent amount of the capital stock and surplus of the foreign bank holding a certificate of authority to establish and operate such Federal branch bank; *Provided, further,* That any such foreign bank which has more

than one Federal branch bank in any State shall be required to aggregate the accounts of all such Federal branch banks in such State for the purpose of computing any limitations or restrictions under any provision referred to in the preceding proviso.".

SEC. 7. Paragraph 1 of section 6 of the Federal Reserve Act (12 U.S.C. 288) is amended by adding at the end thereof the following new sentence: "For the purposes of the preceding sentence, a member bank that is a branch or agency of a foreign bank shall be deemed to be insolvent when the foreign bank's license or certificate of authority to operate such branch or agency has been terminated or revoked, or when a receiver has been appointed for such branch or agency, or when the foreign bank licensed or holding a certificate of authority to operate such branch or agency is declared insolvent, or a receiver is appointed therefor, or is dissolved or its authority or existence is otherwise terminated or canceled in the jurisdiction of its incorporation.".

SEC. 8. Section 9 of the Federal Reserve Act is amended by adding at the end thereof the following new paragraph:

"Any branch or agency of a foreign bank established or operating under the laws of any State of the United States may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust

companies and may continue to exercise all powers granted it by the State in which it is operating or established, and shall be entitled to all the privileges of member banks except that (1) any reference in the provisions of this Act to the capital stock and surplus of an applying bank, member bank or national bank shall, for the purpose of applying any limitations or restrictions in any such provisions to any such branch or agency, be deemed to be a reference to the dollar equivalent amount of the capital stock and surplus of the foreign bank licensed or authorized to establish or operate such branch or agency: *Provided, however*, That any foreign bank which has more than one branch or more than one agency in any State, shall be required to aggregate the accounts of all such branches or agencies in such State for the purpose of computing any restrictions or limitations in any such provisions: *Provided further*, That every such branch or agency shall subscribe for capital stock of the Federal reserve bank of the district in which such branch or agency is located in an amount equal to either 6 per centum of the paid in capital stock equivalent which is required under State law to be deposited by the foreign bank licensed or authorized to establish or operate any such branch or agency or, if there is no such requirement under State law, 6 per centum of the paid in capital stock equivalent

which would be required to be deposited by a foreign bank holding a certificate of authority to establish and operate a Federal branch bank in the place in which it is located; and (2) nothing in the provisions of this Act shall authorize the Board of Governors of the Federal Reserve System to appoint examiners to examine the home office or foreign branches or agencies of the foreign bank licensed or authorized to establish or operate such branch or agency, or to regulate the organization or internal affairs of such foreign bank.".

SEC. 9. Section 23A of the Federal Reserve Act (12 U.S.C. 371c) is amended by adding at the end thereof the following new paragraph:

"With respect to a member bank that is a branch or agency of a foreign bank, the provisions of this section shall not apply to (1) any extension of credit by such branch or agency to the foreign bank licensed or authorized to establish or operate such branch or agency or to any other branch or agency of such foreign bank; (2) any extension of credit by such branch or agency to a subsidiary, within the meaning of the Bank Holding Company Act of 1956, as amended, of the foreign bank licensed or authorized to establish or operate such branch or agency, if such subsidiary is organized under the laws of a foreign country and does no business within the United States, except as an incident to its international or foreign business; or (3) any extension of

credit by such branch or agency to a bank holding company of which such branch or agency is a subsidiary, within the meaning of the Bank Holding Company Act of 1956, as amended, or to another subsidiary of such bank holding company, if made within one year after the effective date of the Foreign Bank Act of 1975 and pursuant to a contract entered into prior to that date."

SEC. 10. Section 25(a) of the Federal Reserve Act (12 U.S.C. 611) is amended—

(1) by inserting ", except with the approval of the Board of Governors of the Federal Reserve System," after "all of whom" in the second sentence of the fourth paragraph thereof (12 U.S.C. 614);

(2) by inserting in the second proviso of the first sentence of the twelfth paragraph thereof (12 U.S.C. 618)", except with the approval of the Board of Governors of the Federal Reserve System," after "That";

(3) by striking out the thirteenth paragraph thereof (12 U.S.C. 619) and inserting in lieu thereof the following:

"Except as otherwise provided in this section, a majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the

laws of the United States or of a State of the United States or by firms or companies, the controlling interest in which is owned by citizens of the United States."; and

(4) by adding at the end thereof the following new paragraph:

"Notwithstanding any other provisions of this section, any foreign bank or any bank organized under the laws of the United States, any State of the United States, or the District of Columbia, the controlling interest in which is owned by a foreign bank, group of foreign banks, or company organized under the laws of a foreign country which owns or controls a foreign bank, may, with the prior approval of the Board of Governors of the Federal Reserve System and upon such terms and conditions and subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, own and hold a majority of the shares of the capital stock of any corporation organized under this section, and any such corporation shall be subject to the same provisions of law as any other corporation organized under this section: *Provided, however,* That the Board of Governors of the Federal Reserve System shall not approve such ownership and holding of a majority of the shares of the capital stock of any corporation organized under this section, if, after consultation with the Secretary of State of the United States and the Secretary of the Treasury, the Board of Gov-

ernors of the Federal Reserve System determines that such ownership and holding would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interest of the United States."

NATIONAL BANK ACT AMENDMENTS

SEC. 11. Section 5133 of the Revised Statutes (12 U.S.C. 21) is amended by striking out the period at the end of the first sentence and adding the following new proviso: ": *Provided, however,* That subject to the provisions of section 5169 of the Revised Statutes, as amended, an association may be formed by or on behalf of a foreign bank, as such term is defined in the Bank Holding Company Act of 1956, as amended.".

SEC. 12. Section 5146 of the Revised Statutes (12 U.S.C. 72) is amended by striking out the period at the end of the first sentence and adding the following new proviso: ": *Provided, however,* That the Comptroller of the Currency may in his discretion permit as directors not more than one-third the total number thereof, to serve as such, although such directors are not citizens of the United States."

SEC. 13. Section 5169 of the Revised Statutes (12 U.S.C. 27) is amended by striking out the period at the end of the last sentence and adding the following: "; or whenever, after consultation with the Secretary of State of the United States, the Secretary of the Treasury, and the

Board of Governors of the Federal Reserve System, the Comptroller determines that it would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interest of the United States to grant such certificate.".

AMENDMENTS TO THE BANKING ACT OF 1933

SEC. 14. Section 2 of the Banking Act of 1933 (12 U.S.C. 221a) is amended by adding the following new subsection at the end thereof:

"(c) Except where otherwise specifically provided, with respect to any member bank that is a branch or agency of a foreign bank, the term 'affiliate' shall include the foreign bank which is licensed or authorized to operate such branch or agency, any other branch or agency of such foreign bank, and any affiliate of such foreign bank, as such term is defined in subsection (b) of this section."

SEC. 15. Section 20 of the Banking Act of 1933 (12 U.S.C. 377) is amended—

(1) inserting "or section 2(c)" after "section 2(b)" in the first sentence thereof; and

(2) by striking out the period in the first paragraph thereof and by adding the following: ": *Provided further*, That the provisions of this paragraph shall not prohibit a member bank from being affiliated in any manner described in section 2(b) or section 2(c) here-

of with any such organization if such member bank is a subsidiary, within the meaning of the Bank Holding Company Act of 1956, as amended, of a bank holding company which is permitted to retain its ownership or control of any voting shares of such organization under the authority of section 4 (a) (2) of the Bank Holding Company Act of 1956, as amended, or, with the specific consent of the Board of Governors of the Federal Reserve System, under section 4 (c) (9) of the Bank Holding Company Act of 1956, as amended.".

SEC. 16. Section 21 of the Banking Act of 1933 (12 U.S.C. 378) is amended by striking clause (B) of paragraph (2) of subsection (a) thereof and inserting in lieu thereof the following:

"(B) shall be permitted by the United States, any State, Territory, or District to engage in such business and shall be subjected by the laws of the United States, or of such State, Territory, or District to examination and regulation,".

FEDERAL DEPOSIT INSURANCE ACT AMENDMENTS

SEC. 17. Within ninety days after the enactment of this Act, the Federal Deposit Insurance Corporation shall submit to the Congress a proposal for implementing the existing provisions of the Federal Deposit Insurance Act so as to include within the coverage of such Act, branches and

agencies of foreign banks established or operating under the laws of the United States, any State of the United States, or the District of Columbia.

ESTABLISHMENT OF FEDERAL BRANCHES BY FOREIGN BANKS

SEC. 18. (a) Definitions.—For the purposes of this section, these terms shall have the following meanings:

(1) The term "Comptroller" means the Comptroller of the Currency.

(2) The term "foreign bank" means any corporation or similar organization organized under the laws of a foreign country, a majority of the shares of the capital stock of which are not owned by citizens of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States, and which is principally engaged in the banking business outside the United States. This term includes, without limitation, foreign commercial banks, foreign merchant banks, and other institutions which engage in banking activities usual in connection with the transaction of the business of banking in the countries or places where such foreign banks are organized or operating.

(3) The term "foreign country" means any country other than the United States and any colony, dependency, or possession of any such country, and includes, for the purposes of this section, any territory of the United States,

Puerto Rico, Guam, American Samoa, and the Virgin Islands.

(4) The term "initial branch" means the first branch of a foreign bank established under this section in any State.

(5) The term "State" means any State of the United States and the District of Columbia.

(b) Establishment of branches.—Notwithstanding the laws of any State, any foreign bank may, upon receipt of a certificate of authority from the Comptroller, and subject to the provisions of this section, establish and operate one or more branches in any State: *Provided, however,* That no foreign bank may at any time in any State have both a branch established and operating under this section and a branch or agency established or operating under the laws of such State.

(c) Conversion of State branch, agency, or bank.—Any foreign bank with a branch or agency established or operating under the laws of any State and any foreign bank which owns all of the stock (except for directors' qualifying shares) of any bank organized under the laws of any State may, with the prior approval of the Comptroller and pursuant to the requirements of subsections (d), (e), (f), and (g) of this section, change or convert such branch, agency, or State bank into a branch to be established and operated under this section with any name approved by the Comptroller: *Pro-*

vided, however, That any such conversion shall not be in contravention of the State law. In any such case, all of the liabilities of such foreign bank previously payable at the offices of the State branch or agency and all of the liabilities of the State bank shall thereafter be payable by such foreign bank at the office of the branch established under this section. When the Comptroller has given such a foreign bank a certificate that the provisions of this section have been complied with, such foreign bank shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and this section for foreign banks with branches originally established under this section.

Subject to the limitations of subsection (i) of this section, any foreign bank may (1) if it is converting a State branch under this subsection, retain and operate as additional branches under this section, any other branches established in the State of the converting branch prior to conversion; (2) if it is converting a State agency under this subsection, retain and operate as additional branches under this section, any other agencies established in the State of the converting agency prior to conversion; and (3) if it is converting a State bank under this subsection, retain and operate as additional branches under this section, any

other branches established by such State bank prior to conversion.

The Comptroller may, in his discretion and subject to such conditions as he may prescribe, permit such foreign bank to retain and carry at a value determined by the Comptroller such of the assets of the converted branch, agency, or State bank as do not conform to the legal requirements relative to assets acquired and held by branches established and operating under this section.

(d) Requirements of application.—A foreign bank, in order to obtain a certificate of authority to establish and operate a branch under this section, shall make application therefor to the Comptroller which application shall include such information with respect to the factors to be considered in subsection (f) of this section as the Comptroller may, in his discretion, prescribe as necessary or appropriate to carry out the purposes of this section.

Such application shall be made on forms prescribed and furnished by the Comptroller and shall be duly executed by the foreign bank by one or more of its principal officers.

(e) Views and recommendations.—Upon receipt of an application for a certificate of authority by a foreign bank to establish and operate a branch under this section, the Comptroller shall transmit a copy of such application to the Secretary of State of the United States, the Secretary of the

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Treasury, the Board of Governors of the Federal Reserve System, and the bank supervisory authority of the State in which such branch is to be located and shall allow thirty days within which the views and recommendations of the Secretary of State, the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the State bank supervisory authority may be submitted.

(f) Factors to be considered.—The Comptroller shall not issue a certificate of authority to a foreign bank under this section if—

(1) the establishment of such a branch would adversely affect the domestic or foreign commerce of the United States, or

(2) the establishment of such a branch would otherwise not be in the interest of the United States. In making his determination with respect to the preceding factors, the Comptroller shall take into account the written comments of the Secretary of State of the United States, the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the appropriate State bank supervisory authority. In every application, the Comptroller shall also take into consideration the financial and managerial resources and future prospects of the applicant foreign bank and the branch con-

cerned, and the convenience and needs of the community to be served.

(g) Certificate.—If, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Comptroller, it appears that such foreign bank is lawfully entitled to establish and operate a branch under this section, the Comptroller shall issue a certificate of authority to such foreign bank, under his hand and official seal, that such foreign bank has complied with the provisions of this section required to be complied with before the establishment of a branch under this section, and that such foreign bank is authorized to establish and operate a branch under this section at the location specified in such certificate.

(h) Banking powers.—Upon the issuance of a certificate of authority by the Comptroller, the foreign bank may, subject to the provisions of this section, establish and operate a branch at the location specified in such certificate, and may conduct thereat its banking business with the same rights and privileges as a national bank at that location, and, except as otherwise provided in this section, or in the Federal Reserve Act, subject to the same duties, restrictions, limitations, penalties and liabilities now or hereafter imposed on national banks under the provisions of the National Bank

Act and the Federal Reserve Act: *Provided, however,* That in any such provision which imposes limitations or restrictions based on the capital stock and surplus of a national bank, any reference in such provisions to the capital stock and surplus of a national bank shall be deemed for the purpose of applying the limitations or restrictions in such provisions to a branch established under this section to be a reference to the dollar equivalent amount of the capital stock and surplus of the foreign bank holding a certificate of authority to operate the branch established under this section: *Provided further,* That any foreign bank which has more than one branch established and operating under this section in any State shall be required to aggregate the accounts of all such branches in such State for the purpose of computing any limitations or restrictions under any provision referred to in the preceding proviso.

(i) Additional branches in any State.—A foreign bank with a single branch established and operating under this section in any State may, with the prior approval of the Comptroller and pursuant to the requirements of subsections (d), (e), (f), and (g) of this section, retain or establish and operate additional branches in the State in which such branch is located on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by a national bank if the

principal office of such national bank were located at the same place as the initial branch in such State of such foreign bank.

(j) Change of name or location.—Any foreign bank holding a certificate of authority issued pursuant to this section must secure an amended certificate of authority if it changes its corporate name or changes the duration of its corporate existence, on such application forms and under such rules and regulations as the Comptroller may prescribe. Any foreign bank holding a certificate of authority issued pursuant to this section may not change the location of any branch established and operating under this section without obtaining the prior approval of the Comptroller and no change of location shall be valid until the Comptroller shall have issued his certificate of approval of the same.

(k) Accounts.—The accounts of each branch established and operating under this section shall be conducted independently of the accounts of the principal office of the foreign bank and its branches outside the United States.

(l) Examinations and reports—penalties.—(1) The Comptroller shall appoint examiners who shall examine every branch established and operating under this section at least once in every calendar year and any such examiner shall have all of the powers of an examiner of national banks. The cost of such examinations shall be assessed against and

paid by the foreign bank holding the certificate of authority to operate such branch based on the assets of its branch as determined under subsection (k) of this section.

(2) Every foreign bank holding a certificate of authority issued pursuant to this section shall make reports of condition for each branch established and operating under this section to the Comptroller in accordance with the provisions of the Federal Deposit Insurance Act. The Comptroller may call for additional reports of condition, in such form and containing such information as he may prescribe, on dates to be fixed by him, and may, from time to time, require special reports under oath to keep him informed as to whether the provisions of this section and regulations or orders issued under this section have been complied with.

(3) Every foreign bank holding a certificate of authority issued pursuant to this section which fails to make any report required by this subsection shall be subject to a penalty of $100 for each day after the periods respectively therein mentioned, that it delays to make and transmit such report. All sums of money collected for such penalties shall be paid into the Treasury of the United States, after deduction of the costs incurred in their collection.

(m) Capital equivalency.—Upon the opening of a branch in any State and thereafter, a foreign bank holding a certificate of authority issued pursuant to this section shall

keep on deposit, in accordance with such rules and regulations as the Comptroller may prescribe, with such national bank in the State where such branch is located and as such foreign bank may designate and the Comptroller may approve, investment securities of the type that may be held by national banks for their own account pursuant to paragraph "Seventh" of section 5136 of the Revised Statutes, as amended, equal to an aggregate amount, based upon principal amount or market value, whichever is lower, in the case of the above-described securities, of not less than the greater of that amount of capital which would be required of a national bank being organized at that location, or 5 per centum of the total liabilities of such branch, including acceptances, but excluding (1) accrued expenses, and (2) amounts due and other liabilities to other offices, branches, or agencies of, and wholly owned (except for directors' qualifying shares) subsidiaries of, such foreign bank: *Provided, however,* That the Comptroller may from time to time require that the assets deposited pursuant to this subsection may be maintained in such amount as he may deem necessary or desirable, for the maintenance of a sound financial condition, the protection of depositors and the public interest. The deposit shall be maintained with any such national bank pursuant to a deposit agreement in such form and containing such limitations and conditions as the Comptroller may prescribe. So long as it

continues business in the ordinary course such foreign bank shall, however, be permitted to collect interest on the securities so deposited and from time to time exchange, examine, and compare such securities.

(n) Domestic assets.—The Comptroller shall have the power to require every foreign bank holding a certificate of authority issued pursuant to this section to hold, under such rules and regulations as the Comptroller may prescribe, in any State where it has established a branch under this section, currency, bonds, notes, debentures, drafts, bills of exchange or other evidences of indebtedness or other obligations payable in the United States or in United States funds in an amount which the Comptroller shall prescribe as necessary in order to protect domestic depositors and creditors of any branch established under this section.

(o) Revocation of certificate of authority.—Any certificate of authority issued to a foreign bank pursuant to this section shall be revoked when voluntarily surrendered by such foreign bank or when such foreign bank is dissolved or its authority or existence is otherwise terminated or canceled in the country of its organization, and if at any time the Comptroller is of the opinion or has reasonable cause to believe that such foreign bank has violated or failed to comply with any of the provisions of this section or any of the rules, regulations, or orders of the Comptroller made pursuant thereto,

the Comptroller shall have the power, after notice and opportunity for hearing, to revoke the certificate of authority of a foreign bank to operate any branch under this section. The Comptroller may restore any such certificate of authority upon due proof of compliance with the provisions of this section and the rules, regulations, or orders of the Comptroller made pursuant thereto.

(p) Receivership.—Whenever the Comptroller has revoked the certificate of authority of a foreign bank to operate any branch under this section, or whenever any creditor of any such foreign bank shall have obtained a judgment against it in any court of record of the United States or any State of the United States and made application, accompanied by a certificate from the clerk of the court stating that such judgment has been rendered and has remained unpaid for the space of thirty days, or whenever the Comptroller shall become satisfied of the insolvency of such foreign bank, he may, after due consideration of its affairs, in any such case, appoint a receiver who shall take possession of all the property and the assets of such foreign bank in any State of the United States. Thereafter the receiver shall exercise the same rights, privileges, powers, and authority with respect to such property and assets of such foreign bank as are now exercised by receivers of national banks appointed by the Comptroller.

(q) Regulations.—The Comptroller is authorized and empowered to issue such rules, regulations, and orders as he may deem necessary to enforce compliance with the provisions of this section, to prevent evasions thereof, and to insure the proper exercise of the powers granted herein.

(r) Service of process.—Every foreign bank holding a certificate of authority issued pursuant to this section shall execute and file with the Office of the Comptroller and the applicable State bank supervisory authority an irrevocable appointment of an agent for service of process in every State where it has established a branch under this section. Such irrevocable appointment shall be on such form as the Comptroller may prescribe.

If any such agent shall be removed, resign, or die, become insane or otherwise incapable of acting, it shall be the duty of such foreign bank to appoint another agent in his place, and until such appointment shall have been made, or during the absence of any officer, or other agent of such foreign bank from the applicable State, service of process may be made upon the Comptroller, any Deputy Comptroller of the Currency, or upon any person authorized by the Comptroller to receive such service of process. If any process is served on the Comptroller, he shall immediately cause a copy thereof to be either delivered personally to such foreign bank by a person and in the manner authorized to serve

process by law in the jurisdiction where service is made, or forwarded by registered mail addressed to such foreign bank at the post office address specified for mailing process as the same appears on the Comptroller's records, or if no address is there specified to the bank supervisory authority of the country of such foreign bank's organization. Nothing in this section limits or affects the right to serve any process, notice of demand required or permitted by law to be served upon a foreign corporation in any other manner now or hereafter permitted by law.

The Comptroller shall keep a record of all processes served upon him by this subsection and shall record therein the time of such service and his action with reference thereto.

(s) Venue of suits.—Actions and proceedings under this section against any foreign bank holding a certificate of authority issued pursuant to this section may be had in any circuit or district court of the United States held within the district in which any branch established under this section is located, or in any State, county, or municipal court in the county or city in which such branch is located having jurisdiction in similar cases.

(t) Civil penalties.—Any foreign bank holding a certificate of authority issued pursuant to this section which violates or fails to comply with any provision of this section, or any rule, regulation, or order of the Comptroller issued pur-

suant thereto, is subject to a penalty of not less than $1,000 nor more than $5,000 for each and every offense, for each day in which the violation or failure to comply continues. All sums of money collected for such penalties shall be paid into the Treasury of the United States, after deduction of the costs incurred in their collection. The civil penalties provided in this subsection shall be in addition to all other civil remedies and criminal penalties provided by law.

(u) Criminal penalties.—Any foreign bank holding a certificate of authority pursuant to this section which willfully violates any provision of this section, or any rule, regulation, or order issued by the Comptroller pursuant thereto, shall upon conviction be fined not more than $1,000 for each day during which the violation continues. Any individual who willfully participates in a violation of any provision of this section shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both.

JURISDICTIONAL AMENDMENTS

SEC. 19. Title 28, United States Code, is amended by adding the following new sections:

"**§ 1364. Foreign banks as party**

"The district courts shall have original jurisdiction of any civil action commenced by the United States, or by direction of any officer thereof, against any foreign bank arising out of the business of any branch of such foreign bank estab-

lished and operating under section 18 of the Foreign Bank Act of 1975, any civil action against any foreign bank to wind up the affairs of any such branch, and any action by such a foreign bank in the district for which the court is held under section 18 of the Foreign Bank Act of 1975 to enjoin the Comptroller, or any receiver acting under his direction, as provided by such section.

"§ 1407. Acts by foreign banks to enjoin Comptroller

"Any civil action by a foreign bank arising out of the business of a branch established under section 18 of the Foreign Bank Act of 1975 to enjoin the Comptroller under the provisions of any Act of Congress relating to the business of any such branch, may be prosecuted in the judicial district where such branch of such foreign bank is located."

UNITED STATES CRIMINAL CODE AMENDMENTS

SEC. 20. Title 13, United States Code, is amended by adding the following new sections:

"§ 16. Member bank

"The term 'member bank', as used in this title, includes any branch or agency of a foreign bank that is a member of the Federal Reserve System.

"§ 17. National bank

"The term 'national bank', as used in this title, includes any branch of a foreign bank established and operating under section 13 of the Foreign Bank Act of 1975."

BANK PROTECTION ACT AMENDMENTS

SEC. 21. Section 2 of the Bank Protection Act of 1968 (12 U.S.C. 1881) is amended—

(1) by inserting the following in paragraph (1) after "national banks" and before "and district banks"; ", any branch of a foreign bank established and operating under section 18 of the Foreign Bank Act of 1975,"; and

(2) by inserting the following in paragraph (2) after "State banks" and before "which are members of the Federal Reserve System"; "and any branch or agency of a foreign bank established or operating under the laws of any State".

TRUTH-IN-LENDING ACT AMENDMENTS

SEC. 22. Section 108 of the Truth-in-Lending Act (12 U.S.C. 1607) is amended—

(1) by inserting after the words "national banks" in subparagraph (A) of paragraph (1) of subsection (a) the following: "and branches of foreign banks established and operating under section 18 of the Foreign Bank Act of 1975"; and

(2) by inserting after the words "national banks" within the parenthesis in subparagraph (B) of paragraph (1) of subsection (a), the following: "and

branches of foreign banks established and operating under section 18 of the Foreign Bank Act of 1975".

FAIR CREDIT REPORTING ACT AMENDMENTS

SEC. 23. Section 621 of the Fair Credit Reporting Act (12 U.S.C. 1681s) is amended—

(1) by inserting after the words "national banks" in subparagraph (A) of paragraph (1) of subsection (b) the following: "and branches of foreign banks established and operating under section 18 of the Foreign Bank Act of 1975"; and

(2) by inserting after the words "national banks" within the parenthesis in subparagraph (B) of paragraph (1) of subsection (b) the following: "and branches of foreign banks established and operating under section 18 of the Foreign Bank Act of 1975".

INTERNATIONAL INFORMATION AGREEMENTS

SEC. 24. Notwithstanding any other provision of law, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation are hereby authorized to make available, under such conditions as they may prescribe, upon request, examination, operating, or condition reports, or other information, in their possession of State and National banks to the banking supervisory authority of a foreign country

in which such bank has or proposes to have a branch, agency, office, or banking subsidiary, including any banking affiliate which is to be in the form of a joint venture between such bank and any other person, firm, or corporation: *Provided*, That any of the foregoing information may only be made available to such foreign banking supervisory authority upon the condition that such foreign banking supervisory authority shall make available upon request to the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation its examination, operating, or condition reports or other information in its possession of banks organized or operating under the laws of such foreign country which engage or propose to engage in a joint venture banking affiliate with a State or National bank, whether in the United States or such foreign country, or which do business or propose to do business through a branch, agency, office, or banking subsidiary in the United States: *Provided further*, That any such arrangement shall be contingent on the condition that the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and such foreign banking supervisory authority shall not disclose or otherwise make such reports available to any person not an officer, employee, or agent of the Board of Governors of the Federal Reserve System,

of any Federal Reserve bank, of the Comptroller of the Currency, of the Federal Deposit Insurance Corporation, or of such foreign banking supervisory authority.

FEDERAL BANKING LICENSE

SEC. 25. (a) Definitions.—For the purposes of this section, the terms "bank", "company", "control", "foreign bank", "foreign country", and "subsidiary" shall have the meanings assigned to them in section 2 of the Bank Holding Company Act of 1956, as amended. The term "Comptroller" means the "Comptroller of the Currency".

(b) Requirement of License.—In addition to any other requirements imposed under the laws of the United States, any State of the United States, or the District of Columbia, no foreign bank or group of foreign banks, and no company (1) which is organized under the laws of a foreign country and which controls a foreign bank, (2) which is a subsidiary of a foreign bank, or (3) of which control is held, directly or indirectly, by the shareholders of a foreign bank, the majority of whom are not citizens of the United States or companies controlled by citizens of the United States, shall, directly or indirectly, control, establish, operate, organize, acquire all or substantially all of the assets of, or merge or consolidate with, as the case may be, any bank located in any State of the United States or the District of Columbia unless such foreign bank, group of foreign banks

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or company, as the case may be, shall have received a Federal banking license to directly or indirectly control, establish, operate, organize, acquire all or substantially all of the assets of, or merge or consolidate with such bank issued by the Comptroller under this section, or shall have received a certificate issued by the Comptroller under section 5169 of the Revised Statutes, as amended, or section 18 of the Foreign Bank Act of 1975: *Provided,* That any such foreign bank, group of foreign banks, or company shall not be required to apply for a Federal banking license under this section for any bank directly or indirectly controlled, established, operated, organized, merged or consolidated, or all or substantially all of the assets of which were acquired on or before the date of enactment of the Foreign Bank Act of 1975, if, within one hundred and eighty days after the date of enactment of the Foreign Bank Act of 1975, such foreign bank, group of foreign banks, or company shall register with the Comptroller on forms prescribed by the Comptroller, which shall include such information with respect to the financial condition and operations, and management of such foreign bank, group of foreign banks, or company and such bank or banks, as the Comptroller may deem necessary or appropriate to carry out the purposes of this section.

(c) Requirements of application.—A foreign bank, group of foreign banks, or company, in order to obtain a

Federal banking license under this section, shall make application therefor to the Comptroller which application shall include such information as the Comptroller, in his discretion, may prescribe as necessary or appropriate to carry out the purposes of this section.

Such application shall be made on forms prescribed and furnished by the Comptroller and shall be duly executed by one or more of the principal officers of the applying foreign bank or company, or of each applying foreign bank in a group of foreign banks.

(d) Authority vested in the Secretary of the Treasury.—Upon receipt of an application for a Federal banking license under this section, the Comptroller shall retain a copy thereof and shall transmit the original application to the Secretary of the Treasury, who is authorized and empowered to approve the issuance by the Comptroller of any Federal banking license under this section. The Comptroller shall also transmit a copy of an application for a Federal banking license under this section to the Secretary of State of the United States and the Board of Governors of the Federal Reserve System, who shall submit their views and recommendations to the Secretary of the Treasury within thirty days after the date of receipt of the application.

(e) Factors to be considered.—The Comptroller shall not issue a Federal banking license to a foreign bank, group

of foreign banks, or company under this section if the Secretary of the Treasury, after taking into account the views and recommendations of the Secretary of State and Board of Governors of the Federal Reserve System, determines that the issuance of a Federal banking license would adversely affect the domestic or foreign commerce of the United States, or would otherwise not be in the interests of the United States. In every application, the Secretary of the Treasury shall also take into consideration the views and recommendations of the Comptroller on the financial and managerial resources and future prospects of the applicant and bank concerned, and the convenience and needs of the community to be served.

(f) Federal banking license.—If, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Secretary of the Treasury, it appears to the Secretary of the Treasury, after taking into account the views and recommendations of the Secretary of State and the Board of Governors of the Federal Reserve System, that such foreign bank, group of foreign banks, or company is lawfully entitled directly or indirectly to control, establish, operate, organize, acquire all or substantially all of the assets of, or merge or consolidate with such bank under this section, the Secretary of the Treasury shall direct the Comptroller to issue a Federal banking license to such

foreign bank, group of foreign banks, or company, under his hand and official seal, authorizing such foreign bank, group of foreign banks, or company, directly or indirectly, to control, establish, operate, organize, acquire all or substantially all of the assets of, or merge or consolidate with such bank.

(g) Revocation of Federal Banking License.—Any Federal banking license issued to a foreign bank, group of foreign banks, or company pursuant to this section shall be revoked when any other approval, certificate, charter, or license it may have to directly or indirectly control, establish, operate, organize, acquire all or substantially all of the assets of, or merge or consolidate with the bank for which the license has been issued, has been revoked, canceled, or otherwise terminated under the laws of the United States, any State of the United States, or the District of Columbia.

(h) Regulations.—The Secretary of the Treasury and the Comptroller are authorized and empowered to issue such rules, regulations, and orders as each of them may deem necessary in performing their respective duties and functions under this section to enforce compliance with the provisions of this section, to prevent evasions thereof, and to insure the proper exercise of the powers granted therein.

(i) Criminal Penalties.—Any foreign bank or company which willfully violates any provision of this section or any rule, regulation, or order issued by the Secretary of the

Treasury or the Comptroller pursuant thereto shall upon conviction be fined not more than $1,000 for each day during which the violation continues, and any individual who willfully participates in a violation of any provision of this section shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both.

SEPARABILITY

SEC. 26. If any provision of this Act, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

January 27, 1976

Dear Mr. Chairman:

I am pleased to respond to the Committee's request for the comments of the Office of the Comptroller of the Currency on S. 958, a bill to provide for federal regulation of foreign banks' activities in the U. S.

The bill would impose uniform requirements on foreign banks operating in the U. S. as well as branches or agencies of foreign banks. It would provide for the exercise of this control by designating as a bank holding company any foreign bank controlling a bank, branch or agency operating in the U. S. All foreign banks seeking to participate in the U. S. market as national banks, state banks, branches or agencies would be required to obtain the approval of the Comptroller of the Currency at the direction of the Secretary of the Treasury after consultation with the Secretary of State and the Federal Reserve. The Comptroller would also be authorized to charter "Federal branches" of foreign banks, giving them all the powers of national banks. National banks may be chartered with up to one half the directors being foreign citizens.

Federal Reserve membership would be required of all foreign banks (including branches or agencies) having worldwide assets of $500,000,000 or more. Membership in the FDIC would also be required of all banks regardless of size.

Under a grandfather clause, all U. S. operations of foreign banks existing on December 3, 1974, would be allowed to continue including nonbanking activities which would be prohibited to foreign banks entering the U. S. after that date. Grandfathered activities of foreign banks could be expanded if permitted under State law.

While there is much in this bill that is worthy of favorable consideration, my recent visit with European financial leaders has convinced me more than ever that legislation in this area should be drafted carefully and after much deliberation. We must assure, for example, that legislation which attempts to apply even-handed treatment to foreign banks and U. S. banks does indeed

accomplish that purpose and does not instead invite retaliation against U. S. banks operating abroad and jeopardize our foreign economic policy. At any rate, my impression is that foreign banks, like our own, are taking a hard look at balance sheet considerations and, therefore, considerable expansion by foreign banks in the U. S. is unlikely in the year ahead.

Certain of the restrictions proposed to be applied to foreign banks by S. 958 relate to matters which are scheduled for review during the course of this year by Committees of the Congress or Congressionally-authorized Commissions. I refer to the restrictions of the Glass-Steagall Act and the application of our legal constraints on interstate branching. Since the aforementioned balance sheet considerations will operate as a natural governor on major foreign bank expansion in the United States in 1976, the wise course would seem to be to permit these current reviews of 1930's policies to be completed before concluding action on this proposed legislation.

Sincerely,

James E. Smith

James E. Smith
Comptroller of the Currency

Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions of the
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

STATEMENT OF THE NEW YORK STOCK EXCHANGE, INC. FILED WITH THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS OF THE SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE ON S. 958
FEBRUARY 4, 1976

The New York Stock Exchange appreciates the opportunity to submit its views on S. 958 -- the proposed Foreign Bank Act -- to the Subcommittee on Financial Institutions of the Senate Banking, Housing, and Urban Affairs Committee.

The Exchange supports the basic provisions of the proposed Foreign Bank Act. The activities of foreign banks operating in the United States should be subject to regulations comparable to those applied to domestic banks. This Bill goes a long way toward clarifying the present hodge-podge of overlapping and conflicting requirements -- and does so without imposing restrictions on the international flow of capital.

While in general support of this legislation, the Exchange has serious reservations regarding the provisions of the Bill which grandfather securities broker-dealer affiliates of foreign commercial banks having U.S. banking operations. We also believe that the exclusion of joint venture arrangements from coverage under the legislation is inappropriate. Accordingly, we suggest that the Bill be revised to require complete divestiture of securities broker-dealer affiliates from those foreign commercial bank parents having U.S. banking operations. Such divestiture need not be immediate, but could be phased in over a reasonable period of time to prevent serious dislocations, and minimize the possibility of adverse foreign reaction

against U.S. financial institutions operating abroad. As concerns joint venture arrangements, these arrangements should be brought under the provisions of U.S. banking law.

If, upon due consideration, it is determined that the grandfather provisions of S. 958 should be retained, the Exchange suggests that the Bill be revised to limit the future expansion of U.S. broker-dealers which are 100% owned by foreign institutions with U.S. banking interests.

I. Need for Comprehensive Legislation Controlling Foreign Banking Operations in the United States

There can be little doubt of the need for the proposed legislation. The existing pattern of U.S. regulation of foreign banks is clearly inadequate. Few domestic branches or agencies of foreign banks are members of the Federal Reserve System, making the implementation of monetary policy all the more difficult. World financial markets have become increasingly integrated, and the transmission of changing money and credit conditions among national economies has been greatly accelerated. U.S. monetary authorities must be in a position to influence international money flows when those flows conflict with domestic economic policy objectives. The absence of comprehensive legislation in this area leaves the Federal government with a limited role in the regulation and supervision of foreign bank activity.

Instead of being subject to Federal regulation, most foreign banks now operate under the laws of the various states. These laws

are often inconsistent in that, for example, some states preclude foreign banks from entry, while others restrict their form of organization or range of permissible activities. Further, by careful choice of organizational form, foreign banks are able to engage in multistate deposit banking -- an option foreclosed to domestic banks. Also, foreign banks operating in this country through branches or agencies are not subject to the jurisdiction of the Bank Holding Company Act as it relates to non-bank activities. This latter deficiency enables foreign commercial banks to have a combination of securities and banking operations in the U.S., in forms which are expressly forbidden to U.S. banking institutions under the Glass-Steagall Act. Securities broker-dealers affiliated with foreign banks may have a competitive edge over those not having such affiliations; moreover, foreign banks may have an unwarranted competitive advantage over domestic banks. This may not be consistent with a national policy which aims to place all entities vying for the same business on an equal competitive footing.

II. Position of the New York Stock Exchange on the Grandfathering of Securities Broker-Dealer Affiliates of Foreign Banks with U.S. Banking Operations

While we support the broad purpose of the Foreign Bank Act, the Exchange has serious reservations regarding the Section 4 provisions relating to the grandfathering of securities affiliates of foreign banks with U.S. commercial banking activities. Under Section 4(3) of S. 958, broker-dealer affiliates of foreign commercial banks with existing U.S. banking operations would be

permanently grandfathered. Foreign banks not having such affiliates prior to the grandfathering date (December 3, 1974) would be precluded from establishing such subsidiaries in the future, or from buying a controlling interest in an already established broker-dealer.

The New York Stock Exchange believes that the securities broker-dealer affiliates of foreign banks currently operating in the U.S. should not be grandfathered. Rather, all foreign banks and their affiliates should choose between doing a commercial or investment banking business in this country -- just as their American counterparts must do under the Glass-Steagall Act.

In brief, the permanent grandfathering of securities broker-dealer affiliates of foreign banks operating in the U.S. would:

- continue to circumvent the explicit provisions of the Glass-Steagall Act prohibiting any organization from providing both commercial banking and investment banking services;
- continue indefinitely the disadvantage which domestic banks and domestic broker-dealers have with their foreign counterparts currently operating in the United States;
- conflict with Federal Reserve decisions limiting the ability of foreign bank/bank holding companies to form securities broker-dealer affiliates.

A. Erosion of Glass-Steagall Prohibitions

By permanently excluding existing securities broker-dealer affiliates of foreign bank holding companies, the proposed legislation would sanction the avoidance of the Glass-Steagall Act's explicit restrictions on the co-mingling of commercial and investment banking operations in the United States. Section 21 of this landmark legislation makes it illegal for:

> "...any person, firm, corporation, association, business trust or similar organization, engaged in the business of issuing, underwriting, selling, or distributing at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor."

Though nearly forty years have elapsed since passage of the Glass-Steagall Act, the reasons for this provision are still relevant. The inherent conflict of interest between commercial banking and investment banking activities could lead to questionable financial practices if such joint operations were permitted. In light of the clear possibility for abuse, the separation of commercial banking from investment banking remains a valid principle within the U.S. economic structure and should apply to foreign as well as domestic banks.

B. Unfair Competition to U.S. Banks and Broker-Dealers

The permanent grandfathering of the securities broker-dealer affiliates of foreign banks operating in the U.S. will give foreign

financial institutions an unfair competitive advantage in the U.S. marketplace. In particular, a foreign bank with a broker-dealer subsidiary would be able to offer its customers means of financing not available to customers of competitive domestic banks, namely underwriting facilities. Accordingly, the broker-dealer affiliate could be the recipient of business that otherwise would have been directed to domestic broker-dealers. Further, under this legislation, a foreign commercial banking parent would be able to subsidize its U.S. broker-dealer affiliate, enabling the affiliate to charge lower commission and underwriting rates than are charged by competing domestic U.S. broker-dealers.

It should be noted that the Federal Reserve Board, in its submission accompanying this draft legislation, proposed the grandfathering of existing foreign bank securities broker-dealer affiliates because they were "few in number and small in size, with little competitive impact within the securities or banking industries." In fact, the latest available data indicate that through the first three quarters of 1975, approximately 40%, or $7.6 billion, of foreign transactions in U.S. equity securities reported to the Treasury Department were handled by firms that were not members of the New York Stock Exchange. Though no precise data are available, a considerable portion of this 40% was undoubtedly handled by broker-dealer subsidiaries of foreign banks which also engage in commercial banking operations in the United States.

Other evidence of the growing importance of foreign broker-dealer subsidiaries operating in the United States can be seen by their memberships on the regional stock exchanges. The Boston Stock Exchange, for example, has 16 international members representing 19 foreign banks, of which 14 have U.S. commercial banking activities. One of these members, ABD Securities Corporation, (owned by four foreign commercial banks, three of which have U.S. banking operations), accounts for approximately 31% of the Boston Exchange's trading volume. 1/

As shown in Exhibit A, 10 U.S. broker-dealers are controlled by foreign commercial banks with U.S. banking operations. Exhibit B indicates that these commercial banking parents represent some of the largest banking institutions in the world.

Another indication of growing foreign broker participation in the U.S. securities markets is the increasing frequency with which foreign broker-dealer subsidiaries participate in domestic underwritings or corporate offerings in the United States.

C. Conflict with Previous Federal Reserve Board Policies

Even though the Federal Reserve Board has proposed the grandfathering of foreign broker-dealer subsidiaries on the presumption that there would be little adverse competitive impact within the banking and securities industries, the Board refused to grant per-

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1/ Statement of Theodore Schmidt-Scheuber, President, ABD Securities Corporation, before hearings of the Subcommittee on Securities of the Committee on Banking, Housing, and Urban Affairs on S. 425, March 5, 1975, p. 262.

mission for an Italian bank, Banco di Roma, to combine commercial banking and investment banking activities in this country. In its denial, the Board indicated that:

> "The Board is not persuaded that the public benefits that are alleged for the affiliation of a foreign bank holding company and a securities company would outweigh the possible adverse effects with which Congress was concerned in the enactment of the Glass-Steagall Act. An affiliation with a securities company would give a foreign bank holding company an unfair competitive advantage over a domestic bank holding company in that a foreign bank holding company would be able to offer its customers an alternative means of obtaining financing to credit facilities, namely, underwriting facilities." (emphasis added) 2/

The Exchange believes that the reasoning applied by this Federal Reserve Board ruling in 1972 is equally valid in today's economic environment.

* * *

In advocating the elimination of the grandfathering provisions of S. 958, the Exchange recognizes that a requirement compelling divestiture may prompt foreign retaliation. Indeed, such a view was taken by the Exchange's Advisory Committee on International capital Markets. This Committee, established in November 1972 to advise the Exchange on matters concerned with multinational investment and international capital flows, is composed of a seasoned group of experts in international finance and economic affairs.

2/ "Order Disapproving Retention of Investment in EuroPartners Corporation," Federal Reserve Bulletin, October, 1972, p. 941.

In May 1975, the Committee, in developing its own position on the Foreign Bank Act, was of the view that the grandfathering provisions might be justifiable under certain specific conditions. These conditions included restraints on the future expansion into the general securities business -- including membership on U.S. securities markets -- of U.S. broker-dealers which are 100% owned by foreign institutions with U.S. commercial banking interests. One possible approach advanced, would be the limitation of further injections of capital from the foreign parents other than to replenish capital losses of the U.S. subsidiary. Other restrictions might require that any expansion of the capital of these broker-dealers should come from domestic sources, foreign sources without U.S. banking interests, or from retained earnings.3/

In the case of broker-dealers partially owned by foreign institutions with U.S. banking interests, the Committee believed that the percentage of capital contributed by the foreign institution should not increase. Future injections of capital would be allowed from foreign banks, but only under the condition that the capital contribution from domestic sources increased at the same or a faster rate. Thus, these broker-dealers could prosper with the only limitation being that the foreign bank's share of capital not increase.

3/ In addition to restrictions on external financing, the Committee believed that grandfathered affiliates be required to furnish detailed reports on their activities, particularly in relation to their foreign dealings. In this regard, the Committee suggested that an effective monitoring system be established to insure that these affiliates operate in compliance with existing laws and regulations.

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III. NYSE Position on the Exclusion of Joint Venture Operations from Coverage Under S. 958

The proposed Foreign Bank Act would exempt joint ventures if no one participating company holds 25% or more of the voting stock of a bank. In discussing this issue, the Federal Reserve noted:

> "Banking organizations that are joint ventures of foreign banks are excluded from coverage by retaining the existing standards of control in the Bank Holding Company Act. Under those standards, a company must become a bank holding company if it controls 25 or more percent of the voting stock of a bank. Thus, a bank owned by several companies, none of which owns 25 percent of the bank, is excluded. Currently, there is only one institution of significance that falls in this category, the European-American Bank & Trust Company. That institution, which is owned by six European banks, recently became a member of the Federal Reserve System. <u>The singularity of such joint ventures to date, together with the potential domestic repercussions of changing the existing control standards of the Bank Holding Company Act, are the principal reasons for excluding joint-ventures from coverage of the Act</u>." (emphasis added) 5/

The exclusion of joint ventures from coverage under the Act appears to be contrary to one of the basic purposes of the proposed legislation -- that foreign banks be precluded from owning securities affiliates after the grandfathering date. Clearly, foreign banks will organize their U.S. operations to avoid the strictures of the Act. The fact that one institution has done so may be an indication that others will do so in the future.

5/ "Summary of Principal Features of the Foreign Bank Act of 1974," Statement by the Board of Governors of the Federal Reserve System accompanying draft legislation submitted to the Committee on Banking, Housing, and Urban Affairs, December 3, 1974, p. 4.

IV. Summary

In summary, the New York Stock Exchange supports the basic thrust of S. 958, and suggests the following changes to the proposed legislation.

(1) The grandfathering provisions of the Act as they relate to securities broker-dealer affiliates of foreign banks with U.S. banking operations should be amended. Specifically, foreign banks with U.S. banking operations should be made subject to the Glass-Steagall prohibitions against engaging in the securities business. In addition, affiliates of foreign banks with U.S. banking operations should also be subject to the Glass-Steagall prohibitions, and to the "closely related to banking" restrictions of the Bank Holding Company Act.

(2) Complete divestiture of non-conforming activities should be required. However, such action should be phased in over a reasonable period of time.

(3) Joint venture banking operations should be brought under the provisions of U.S. banking law, where total participation amounts to 25% or more.

(4) If, upon due consideration, Congress determines that the grandfathering provisions of S. 958 should be retained, the Exchange suggests that serious consideration be given to amending the Foreign Bank Act so as to stringently control the future activities of the grandfathered securities broker-dealer affiliates. The recommenda-

tions of the Exchange's Advisory Committee on International Capital Markets might be useful in this regard.

* * *

The Exchange is pleased to have had an opportunity to present its views for the record. While our comments have focused primarily on those areas of the Foreign Bank Act with which we have some difficulty, we support the broad thrust and purpose of this legislation. The Subcommittee on Financial Institutions is to be congratulated on the thoroughness of its hearings on this important matter.

EXHIBIT A

FOREIGN CONTROLLED U.S. SECURITIES COMPANIES AFFILIATED WITH FOREIGN BANKS OPERATING BANKING OFFICES IN THE U.S.*

Securities Company	Affiliated Bank(s)
ABD Securities Corporation	Algemene Bank Nederland, Amsterdam; Dresdner Bank, Frankfurt
Basle Securities Corporation	Swiss Bank Corporation, Basle
Daiwa Securities Company America, Inc.	Daiwa Bank, Tokyo
EuroPartners Securities Corporation	Banco di Roma, Rome; Commerzbank, Frankfurt; Credit Lyonnais, Paris
RWS Securities Services	Westdeutsche Landesbank Gironzentrale, Dusseldorf
SoGen Swiss International Corporation	Amsterdam-Rotterdam Bank N.V.; Societe Generale, Paris; Societe Generale de Banque S.A., Brussels
Suez American	Compagnie Financiere de Suez
Swiss American Securities, Inc.	Swiss Credit Bank, Zurich
UBS-DB Corporation	Deutsche Bank, Frankfurt; Union Bank of Switzerland, Zurich
Yamaichi International (America) Inc.	Fuji Bank of Japan, Tokyo; Industrial Bank of Japan, Tokyo; Mitsubishi Bank, Tokyo**

* List does not include U.S. controlled securities companies in which foreign banks own a minority of the shares.

** The three Japanese banks have agreed pursuant to Section 4(a)(2) of the Bank Holding Company Act, 12 U.S.C. 1843(a)(2), to reduce their ownership of Yamaichi Securities Co., Ltd., Tokyo, Japan, parent of Yamaichi International (America) Inc., to not more than 5%.

Source: George W. Mitchell, Statement before the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance, December 12, 1975, Table 18.

EXHIBIT B

CAPITALIZATION OF FOREIGN COMMERCIAL BANKS OPERATING IN THE U.S. WHICH CONTROL U.S. SECURITIES COMPANIES

Foreign Banking Parent	Worldwide Ranking of Banking Parent by Asset Size: Rank Including U.S. Banks	Rank Excluding U.S. Banks	Value of Assets	Value of Deposits	Controlled U.S. Securities Company
			- - - -Mils.	- - - -	
Credit Lyonnais, Paris	6	3	$32,837	$27,654	EuroPartners Securities Corp.
Deutsche Bank, Frankfurt	7	4	32,412	30,431	UBS-DB Corporation
Societe Generale, Paris	10	7	27,651	27,145	SoGen Swiss International Corp.
Dresdner Bank, Frankfurt	12	8	25,522	18,860	ABD Securities Corporation
Fuji Bank, Tokyo	13	9	25,471	18,555	Yamaichi Int'l (America) Inc.
Mitsubishi Bank, Tokyo	16	11	24,147	17,347	Yamaichi Int'l (America) Inc.
Westdeutsche Landesbank Gironzentrale, Dusseldorf	17	12	23,649	19,302	RWS Securities Services
Industrial Bank of Japan, Tokyo	28	20	19,444	16,812	Yamaichi Int'l (America) Inc.
Commerzbank, Dusseldorf	34	24	18,256	14,339	EuroPartners Securities Corp.
Banco di Roma, Rome	35	25	17,832	12,203	EuroPartners Securities Corp.
Swiss Bank Corp., Basle	40	30	16,401	14,764	Basle Securities Corporation

EXHIBIT B (Cont'd)

Foreign Banking Parent	Worldwide Ranking of Banking Parent by Asset Size: Rank Including U.S. Banks	Rank Excluding U.S. Banks	Value of Assets	Value of Deposits	Controlled U.S. Securities Company
			- - - -Mils.- - - -		
Union Bank of Switzerland, Zurich	41	31	$16,281	$14,628	UBS-DB Corporation
Daiwa Bank, Osaka	47	36	14,558	11,364	Daiwa Securities Co. America
Algemene Bank Nederland, Amsterdam	48	37	13,819	12,650	ABD Securities Corporation
Amsterdam-Rotterdam Bank, Amsterdam	50	39	13,426	12,310	SoGen Swiss International Corp.
Swiss Credit Bank, Zurich	53	42	12,844	11,380	Swiss American Securities, Inc.
Societe Generale de Banque, Brussels	59	46	11,810	10,979	SoGen Swiss International Corp.

Source: "The Top 300 Banks in the World — Annual Review," The Banker, June, 1975, pp. 677-723.

Note: (a) Data are year-end 1974 except for Japanese banks, where data are as of September 30, 1974.
(b) Compagnie Financiere de Suez, the parent of Suez American, is not listed in The Banker Survey.

FOREIGN BANK ACT OF 1975

THURSDAY, JANUARY 29, 1976

U.S. Senate,
Committee on Banking, Housing and Urban Affairs,
Subcommittee on Financial Institutions,
Washington, D.C.

The subcommittee met at 1:35 p.m., in room 5302, Dirksen Senate Office Building, Senator Thomas J. McIntyre (chairman of the subcommittee) presiding.

Senator McIntyre. The subcommittee will come to order.

This afternoon we will be continuing the hearings we initiated yesterday, as we begin to survey the field of foreign banks and their operations in the United States.

I am very pleased to welcome Congressman Rees of California, not only an outstanding Congressman, but one from California, which is one of the six or seven States very, very much involved in foreign banking.

I am pleased to welcome you here today, and we would be glad to have anything you wish to say to help us, because we are going to take a good look at this problem.

STATEMENT OF THOMAS M. REES, REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Rees. Thank you very much, Senator. I hope you will forgive me for not having a printed statement, but I have tended to do the work on the foreign bank bill myself, and I just haven't had any time.

Also, a natural gas deregulation bill is coming up and I have had quite a few people visiting my office.

Senator McIntyre. I don't mind the lack of the statement, as long as your oral statement is brief, concise, and to the point.

Mr. Rees. That's why I never have written statements. I got into this field about 3 years ago when the California Legislature came up with legislation to restrict the activities of foreign banks doing business in the United States. The bill went steaming through the State assembly and was pending in the Senate Banking Committee. I found out about it and became very disturbed, because California has major banks doing business abroad.

If the legislature had passed the bill and if it had been signed into law by the Governor, there would have been serious problems of retaliations against California banks doing business abroad.

I talked to many members of the State Senate, which is a body that I had once been in, and told them the problems of having a State

legislature trying to legislate in the area of foreign businesses operating in the United States.

I am a strong believer of capital movements, international movements. I do not believe in restrictions. I think there should be free flows of capital for investment. And so I thought I would look into this problem of foreign banks doing business in the United States in an effort to perhaps define the role of foreign banking in the United States, so that there would not be further prohibition by various State legislatures.

And I found that foreign banking had increased a great deal. In 1955, the assets of foreign banks—and when I say foreign banks, I am discussing foreign branches, foreign subsidiaries, foreign agencies—was $7 billion. And I think this year the latest estimate is something like $57 billion. So that foreign banking in the United States has increased a great deal. It is not a substantial part of total U.S. bank assets.

I am really not afraid that the foreigners coming in with banking institutions will in any way harm the competitive position of American banks.

But then going further into the subject, I found there is basically no Federal structure for foreign banks doing business in the United States, because under the law, a foreign bank would have to have all the members of the board of directors, American citizens. And as a result, when foreign banks came into the United States, they generally came in under State law.

Now, in California, we have a very aggressive system of banking. We have statewide branching that I like. We have large banks; there is a lot of competition.

I really can't recall when any legitimate application of a foreign bank that had come into California to establish a subsidiary or agency that has been turned down. We don't have branches because in California branches cannot have their deposits insured by the FDIC.

As a result, what we have in California are subsidiaries of foreign banks, as well as agencies.

It has worked out very well in California. The subsidiaries, generally, are in two classifications. First, are the ones in money market centers that are dealing basically in wholesale banking, representing large corporations: either they're their own national business or American national doing business in that country. Then we have some very aggressive chains, such as Bank of Tokyo or Barclay's or Lloyd's, which have multiple branches throughout the State and engage very strongly in retail banking.

But again believing in banking competition, I think this is just fine. What I decided to do was to try to draft a piece of legislation where we would establish a Federal system for foreign banking. And, of course, we would keep the State system of foreign banking.

We would retain the dual banking system that is tradition in this country.

I found, much to my amazement, that under the law foreign banks had a lot more powers than U.S. banks have. Barclay's, for example, has extensive branches in New York and also California. But Bank of America can only have branches in the State of California, because we cannot branch across State lines.

I also found, and this did disturb me somewhat, that foreign branches could have investment banking subsidiaries. And this, of course, is prohibited by U.S. law under the Glass-Steagall Act.

And I feel very strongly about this, that we should have this definite split between investment banking and retail banking.

And so I tried to develop a bill which would take care of these problems, and more or less put foreign banks in the same position, the same competitive position, as we have put U.S. banks.

There is no attempt in my legislative approach in any way to hurt competition, to prevent foreign banks from doing legitimate banking business in this country.

Let me just give you a short rundown of my legislation. There are many parallels between my bill and the Fed bill, except my bill is a lot shorter and a lot easier to read.

What we do is we establish a parallel Federal system so that a bank can have either a branch of the home office, they can have a subsidiary, which would be the equivalent of a U.S. bank in all ways, or they could have an agency, as well as Edge Act corporations which they cannot now have under the law, because of restrictions in terms of the nationality of the members of the board of directors.

We also grandfather in branching. I don't like grandfather clauses. Senator, you have to deal with grandfather clauses; I have dealt with grandfather clauses and, really, they are a pain.

But you have to make these decisions since with Barclay's substantial interests in California, it is very difficult to tell them they have to close them down.

I want to treat the grandfathering problem in the One Bank Holding Company Act. And it was a mess, but in my legislation, we do grandfather the branching, because there was grandfathering in the One Bank Holding Company Act.

Under my legislation, I drastically limit the ability of a foreign bank to engage in investment banking activities in the United States.

They can engage in the same investment activities as U.S. banks, meaning they can deal with a general obligation bond of States and municipalities.

They can also deal in investment banking activities in securities, but only of the purpose is to sell those securities to their own nations.

They cannot under my legislation compete actively with, say, the brokerage houses, such as Merrill Lynch, or Solomon Brothers, the merchant bankers. They have to limit that to dealing with their own nationals.

We also limit branch deposits. The Fed bill takes a very cavalier attitude on FDIC insurance of branch deposits. They say, fine, let's do that. But I don't think they ever talked to the FDIC about this, because the FDIC says, we are not going to insure these deposits, unless, of course, they can go to the original bank in London or Paris and do the same type of auditing we do in a bank in New Hampshire or California.

I think that I have got a solution to this. At first, I was just going to limit branch deposits to nationals of that country. Only British citizens, for example, could deposit in Barclay's. What I have decided to do is, "To allow branches to accept deposits, but they have

to have backed up, on a one-to-one basis, by unencumbered Treasury notes up to $40,000," which is the FDIC limit.

So that, if something did happen to the branch in the home country, those people who deposited would be protected, because of this one-to-one ratio of Treasury notes.

Now, those that choose the branch as a form of banking in the United States, generally say that they do not want to go into retail banking, they want to be basically wholesale banks, and they want to be there basically to serve their own national companies.

So I take them at their word, and I see no reason why they should not be in favor of this type of restriction.

Then we would also have the restriction on branches that they have in New York, which is that they have to have dollar assets of more than 108 percent in terms of liabilities.

I don't set up 108 percent. I allow the Comptroller to set the percentage. I also have compulsory Fed membership for all subsidiaries, and we are still working out the problem of whether the Federal Reserve should have regulatory jurisdiction or merely monetary jurisdiction of branches and agencies.

Even though the bank is a State subsidiary, I believe they should be a member of the Federal Reserve System. And the reason I think that is that the banks generally are the major money market banks of the country of origin.

You have no small bank just deciding to come into the U.S. market. They usually are the money market center banks. They are the major banking institutions. They are the banks that deal extensively in wholesale banking, and they also deal extensively in the Eurodollar market.

I think for monetary policies, if we are to have any type of control over the economic system, that all subsidiaries should be members of the Federal Reserve.

Now, they say, this is discrimination. But, frankly, I don't think it is that much discrimination. There is very little discrimination. And I think it is absolutely necessary, if we are to have a coherent national monetary policy. I also make another change. Under the present law, if a person or a group or another company wishes to purchase a bank, they have to report to the Comptroller if they wish to purchase over 5 percent of the assets, but that is it.

I mean, I guess under the law, as it is now, Al Capone could go out and buy a bank and all he has to do is report if he bought over 5 percent. I had a problem in my district when a Hong Kong entrepreneur by the name of Dawes bought up three different small Federal banks in the State of California and proceeded to make some of the traditional loans you make when you buy up a bank—insider loans and everything else. And now all of these banks are having problems, because of this.

So what I do is set up a title 2 and this deals not just with foreign acquisition, but all acquisitions of banks, which says that if a person wishes to purchase 5 percent or more of the assets of a bank, they must report to the Comptroller of the Currency; but if they wish to purchase control, which we define as 25 percent, then they have to be approved, specifically, by the Comptroller.

And in this way, I think we can protect the American public from having promoters moving in and buying banks and proceeding to make insider loans and draining the assets of a bank.

We also extend the One Bank Holding Company Act by reference to branches and agencies. Foreign subsidiaries are already under the One Bank Holding Company. And we also set up subsidiaries for entry, like the Fed bill does and this is a guideline where the Secretary of the Treasury, upon being given the information, can veto the entry of a banking concern, either coming in as a subsidiary, as a State or Federal subsidiary or agency or branch.

That is the bill.

I wish I had a copy of it.

Our legislative counsel service is very overworked on the House side, but I should have a bill in a few days.

As soon as I introduce it, I will make a copy and an explanation available to the committee.

I might just comment for a minute on the Fed bill. The Fed bill through the vehicle of the One Bank Holding Company Act takes over practically all jurisdiction of foreign banks. And I am not sure if that is the right way.

No. 1: There is a problem of opening up the One Bank Holding Company Act. For my purposes I would love to open it up, because I would like to tighten it up. But I think there are a lot of pressures around in both Houses not to open up the One Bank Holding Company Act, because there are people like me who would like to tighten up the act as it is. And it might be a difficult vehicle to use, if we do, indeed, wish to put through a foreign banking act this year.

Also, I do think that the Comptroller of the Currency should be brought in as perhaps the primary regulatory agency in most of these banks.

You should have dual regulation.

I would say regulation in terms of banking for the Comptroller and regulation in terms of monetary policy and national policy under the Fed.

The Fed also grandfathers in the securities operations. They discussed *de novo* expansion. That is new expansion.

It would be, for example Barclay's purchasing Merrill Lynch, or E. F. Hutton, but it doesn't mean that if Barclay's had a merchant banking business, they couldn't expand that tenfold and twentyfold.

I just think that the Fed grandfather clause means nothing, and I think we have to reassert U.S. law and policy of this Congress in terms of branching and say, no securities business, except with your own nationals.

The Fed bill also does not pick up consortia, such as the successor of the Franklin, which was the European-American, and I think they perhaps should be brought under the act.

And then, of course, the Fed leaves the FDIC the problem of insuring foreign branches.

And the FDIC is not about to start insuring foreign branches where they have no regulatory control over the home bank itself. I frankly feel that we need to deal with this subject this year. I would hate to wait for any great, FINE study or whatever might be emanating from my side.

I just think that we have to come up with regulatory structure. Not only for the benefit of this country, but for the benefit of individuals from other countries who wish to do business here.

Right now, there are a lot of grays and it is very difficult to make business decisions.

So I think that we should address the issue. Just to give you an idea as to the interdependency of foreign banks in the United States and of U.S. banks abroad, I am reading from a Wall Street evaluation firm by the name of Loab and Rhodes, and here are the loans. These are foreign loans as a percentage of the total of foreign, plus domestic and commercial industrial, loans.

These are loans of U.S. banks overseas. In the third quarter of 1975, 58 percent of City Corp.'s loans were overseas.

Bank of America, in my State of California, 45 percent of their loans were to individuals or firms overseas.

So that we can see there is this very extensive intermingling of our banking system with other banking systems.

And I think it is about time that we come down with strong ground rules and those ground rules should be that foreign banks can do whatever U.S. banks can do here. I think that is infinitely fair, although some foreign bankers think they should be allowed to do a lot of things our banks are not allowed to do. In terms of interstate branching, I am a great believer in this.

For example, in the money markets, Citicorp might come to San Francisco or Los Angeles.

Again, I think this should be left up to the legislatures. They should make that decision. If they make that decision and allow that, then, of course, I think foreign branches and foreign subsidiaries should be given the same consideration.

I am for complete equal treatment across the board. And the one exception is that I would like all subsidiaries to be members of the Fed.

That concludes my testimony.

I would be very happy to answer any questions you may have.

Senator McIntyre. I think your testimony here today has helped us a great deal.

I hope that you will introduce your bill and send it over here to us, so we can take a good look at it, and incorporate it in our record.

Mr. Rees. Good. And if I can be of any help to you and your staff I would be delighted.

Senator McIntyre. Thank you very much, Congressman.

[Copy of the bill introduced by Congressman Rees follows:]

94TH CONGRESS
2D SESSION

H. R. 12103

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 25, 1976

Mr. REES introduced the following bill; which was referred to the Committee on Banking, Currency and Housing

A BILL

To provide for Federal regulation of participation by foreign banks in domestic financial markets, and to strengthen supervision of domestic institutions engaged in international banking.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—INTERNATIONAL BANKING

SHORT TITLE AND DEFINITIONS

SEC. 101. (a) This title may be cited as the "International Banking Act of 1976".

(b) For the purposes of this Act—

(1) "agency" means an office of a bank at which loans may be made or credit balances maintained but at

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which deposits may not be accepted from citizens or residents of the United States.

(2) "branch" means an office of a bank at which loans may be made, deposits accepted, and credit balances maintained.

(3) "Comptroller" means the Comptroller of the Currency.

(4) "credit balance" means an account maintained by a bank for a customer, consisting of balances incidental to or arising out of the exercise of the bank's powers, from which the bank may make payments on the customer's behalf which are related to other business lawfully transacted by the bank for the customer.

(5) "Federal branch" means a branch approved by the Comptroller under section 104.

(6) "foreign bank" means a commercial bank, merchant bank, or other institution that engages in banking activities usual in connection with the business of banking in the area where it operates, and is organized under the laws of a foreign country, a territory of the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands.

(7) "State" means any State of the United States or the District of Columbia.

ESTABLISHMENT OF NATIONAL BANKS

SEC. 102. (a) The first sentence of section 5146 of the Revised Statutes (12 U.S.C. 72) is amended by striking the period and inserting a comma and the following: "except that in the case of an association formed by a foreign bank, as defined in the International Banking Act of 1976, not more than one-third of the Directors may, with the approval of the Comptroller of the Currency, be citizens of another country.".

(b) The last sentence of section 5169 of the Revised Statutes (12 U.S.C. 27) is amended by striking out the period and inserting a comma and the following: "or, in the case of an association formed by a foreign bank, whenever, after consulting the Secretary of State, the Secretary of the Treasury, and the Board of Governors of the Federal Reserve System, he determines that it would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interest of the United States to grant such certificate.".

EDGE CORPORATIONS

SEC. 103. (a) The second sentence of the fourth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 614) is amended by striking out "directors, all of

whom shall be citizens of the United States" and inserting "directors".

(b) The thirteenth paragraph of section 25 (a) of the Federal Reserve Act (12 U.S.C. 619) is amended by striking out "or by firms or companies, the controlling interest in which is owned by citizens of the United States" and inserting "by firms or companies, the controlling interest in which is owned by citizens of the United States, or by foreign banks", and by adding at the end thereof the following new sentence: "Upon such terms and conditions and subject to such rules and regulations as the Board may prescribe, a foreign bank as defined in the International Banking Act of 1976 may, with the prior approval of the Board, own and hold a majority of the shares of the capital stock of any such corporation, but such approval shall not be granted if, after consulting the Secretary of State and the Secretary of the Treasury, the Board determines that such ownership and holding would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interest of the United States.".

FEDERAL BRANCHES

SEC. 104. (a) Except as provided in section 105, a foreign bank may, with the approval of the Comptroller, establish a Federal branch in any State in which (1) it is not operating a branch pursuant to State law and (2) the

establishment of a branch by a foreign bank is not prohibited by State law.

(b) In establishing and operating a Federal branch, a foreign bank shall be subject to such rules, regulations, and orders as the Comptroller considers appropriate to carry out this Act, which shall include provisions for service of process and maintenance of branch accounts separate from those of the parent bank. Operations at a Federal branch shall also be subject to all the conditions and limitations that would apply under the National Bank Act to a national bank doing business at the same location, except that (1) the requirements of section 5240 of the Revised Statutes (12 U.S.C. 481) shall be met with respect to a Federal branch if it is examined at least once in each calendar year, and (2) any limitation based on the capital and surplus of a national bank shall be deemed to refer, as applied to a Federal branch, to the capital and surplus of the parent bank, and if the parent bank has more than one Federal branch the accounts of all such branches shall be aggregated in determining compliance with the limitation.

(c) Whenever the Comptroller receives an application to establish a Federal branch, he shall send a copy to the Secretary of State, the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the bank supervisory authority of the State where the branch is to be

located. He shall wait thirty days for such officials to submit their views before acting on the application.

(d) In acting on any such application, the Comptroller shall take into account the financial and managerial resources and future prospects of the applicant bank and the branch, and the convenience and needs of the community to be served. He shall not approve an application if the establishment of the branch would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interest of the United States, and in making that determination he shall take into account the views of the officials referred to in subsection (c).

(e) Any branch operated by a foreign bank in a State pursuant to State law may be converted into a Federal branch with the approval of the Comptroller.

(f) Authority to operate a Federal branch shall terminate when the parent bank voluntarily relinquishes it, or when the parent bank is dissolved or its authority to do business is otherwise terminated in the country of its organization. If the Comptroller has reasonable cause to believe that a foreign bank has failed to comply with this section he may, after notice and opportunity for hearing, revoke the bank's authority to operate a Federal branch. Authority so revoked may be restored upon proof of compliance with this section.

(g) Whenever the Comptroller revokes a foreign

bank's authority to operate a Federal branch, or finds that a judgment against a foreign bank with a Federal branch has been rendered by a court of record and has remained unpaid for thirty days or more, or determines that a foreign bank with a Federal branch is insolvent, he may appoint a receiver, who shall exercise the same powers with respect to the assets of the foreign bank as may be exercised by a receiver of a national bank.

BRANCHING ACROSS STATE LINES

SEC. 105. (a) Except as provided by subsection (b), no foreign bank may operate a branch in a State outside its home State unless the branch is (1) approved by the Comptroller, (2) approved by the bank regulatory authority of the home State and the State in which it desires to operate such branch, and (3) all branches of the foreign bank in all States are Federal branches.

(b) A foreign bank may continue to operate any branch lawfully in operation on the date of enactment of this title if (1) the branch was lawfully in operation, or its establishment had been approved by the appropriate State authority, on or before December 3, 1974, and (2) all of the branches operated in any State by the foreign bank pursuant to State law are converted to Federal branches within one year after the date of enactment of this title.

(c) For the purposes of this section, the home State of a foreign bank is the State in which, on the date of enactment of this title, its assets exceeded those in any other State.

ACCEPTANCE OF DEPOSITS

SEC. 106. (a) (1) No branch may accept deposits of United States residents or businesses whose principal place of business is in the United States unless (A) the branch sets aside an amount of unemcumbered Treasury bills equivalent to the insurance of the Federal Deposit Insurance Corporation of deposits of national banks or (B) the branch maintains with the Federal Deposit Insurance Corporation a surety deposit or bond, under such rules as the Comptroller may prescribe, in an amount which the Comptroller prescribes as necessary in order to protect depositors and creditors of the branch.

(2) The Comptroller shall determine the maturities and minimum and maximum denominations of certificates of deposits issued by a branch.

(b) This section does not apply to any bank organized under the laws of Puerto Rico, nor does it prohibit any bank from maintaining credit balances for any customer.

(c) With respect to branches in existence on the date of enactment of this title, this section shall take effect January 1, 1977.

AUTHORITY OF FEDERAL RESERVE SYSTEM

SEC. 107. (a) No application with respect to a State bank shall be approved under section 7 (j) (6) of the Federal Deposit Insurance Act, as added by section 201 of this title, unless the bank is or will become a member of the Federal Reserve System. Any bank that is a subsidiary of a bank holding company organized under the laws of a foreign country on the date of enactment of this title shall become a member of the Federal Reserve System within one year after that date.

(b) A foreign bank with a branch or agency in a State, and any investment company organized under State law of which 10 per centum or more of the outstanding voting stock is owned by one or more foreign banks, shall be subject to reserve requirements established by the Board of Governors of the Federal Reserve System. For that purpose each such branch, agency, and investment company shall be deemed to be a member bank and all of its liabilities shall be treated as deposits, except that the minimum reserve ratios specified in section 19 (b) of the Federal Reserve Act (12 U.S.C. 461 (b)) shall not apply. The Board shall establish reserve requirements for foreign branches of member banks, corporations operating under section 25 or 25 (a) of the Federal Reserve Act (12 U.S.C. 603, 611–631), investment com-

panies organized under State law of which 10 per centum or more of the outstanding voting stock is owned by one or more foreign banks, and branches and agencies of foreign banks in the States at such ratios as may be appropriate, in the Board's judgment, to effectuate monetary policy objectives, taking into consideration the need to maintain vigorous and fair competition among the institutions affected.

(c) Each branch or agency of a foreign bank operating in a State pursuant to State law, and each investment company organized under State law of which 10 per centum or more of the outstanding voting stock is owned by one or more foreign banks, shall be subject to paragraphs 7 and 8 of section 9 of the Federal Reserve Act (12 U.S.C. 325, 326), relating to examinations, as if the branch, agency, or company were a member bank,

NONBANKING ACTIVITIES

SEC. 108. (a) Except as provided in subsection (b), the prohibitions of the Bank Holding Company Act of 1956 (12 U.S.C. 1841–1849) against acquiring interests in nonbanking companies and against engaging in nonbanking activities shall apply with respect to each foreign bank that has a branch or agency in a State, and to each company of which such a foreign bank is a subsidiary, to the same extent and in the same manner as if the branch were a separately incorporated bank organized under the laws of the United

States, all of the voting shares of which were owned by the foreign bank.

(b) A foreign bank or other company to which subsection (a) applies may retain interests it held on the date of enactment of this section in nonbanking companies, and engage in nonbanking activities in which it was engaged on that date, until December 31, 1985.

(c) A foreign bank or company of which a foreign bank is a subsidiary which is purchasing, dealing in, and underwriting securities in the United States on or before the date of enactment of this Act may continue to purchase, deal in, and underwrite securities in the United States, but it may not sell or distribute securities in the United States except to the extent permissible for national banks under paragraph Seventh of section 5136 of the Revised Statutes of the United States (12 U.S.C. 24).

(d) As used in this section, "bank", "company", and "subsidiary" have the same meaning as in the Bank Holding Company Act of 1956.

GUIDELINES FOR ENTRY

SEC. 109. (a) The Secretary of the Treasury shall issue guidelines with respect to energy of foreign banking organizations and individuals into banking in the United States, to assist Federal and State banking agencies in acting on applications by such organizations and individuals to establish

branches of foreign banks in the States or to acquire interests in banks, corporations organized under section 25 (a) of the Federal Reserve Act, or investment companies organized under State law.

(b) In issuing guidelines under this section, the Secretary of the Treasury shall endeavor to foster participation by foreign interests in international financial markets in the United States to the maximum extent consistent with maintenance of fair and vigorous competition in such markets, and with international economic policies of the United States, including policies relating to the balance of trade, the balance of payments, the international payments mechanism, and the negotiation and implementation of reciprocal arrangements with other countries to strengthen international trade.

(c) Whenever a State bank supervisory authority receives an application to establish a branch of a foreign bank or to organize an investment company of which 10 per centum or more of the stock will be owned by one or more foreign banks, he shall send a copy to the Secretary of the Treasury, the Secretary of State, and the Board of Governors of the Federal Reserve System. He shall wait thirty days for such officials to submit their view before acting on the application.

(d) No application shall be approved by any Federal banking agency under this title or any Act amended by this

title, and no application referred to in subsection (c) shall be approved by any State bank supervisory authority, after receiving notice from the Secretary of the Treasury that approval would be contrary to the guidelines established under this section.

REPRESENTATIVE OFFICES

SEC. 110. (a) Each foreign bank that maintains an office other than a branch in any State shall register with the Secretary of the Treasury in accordance with rules prescribed by him, within one hundred and eighty days after the date of enactment of this title or the date on which the office is established, whichever is later.

(b) This title does not authorize the establishment of any such office in any State in contravention of State law.

CEASE-AND-DESIST ORDERS

SEC. 111. Subsection (b) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818(b)) is amended by adding at the end thereof the following new paragraph:

"(4) This subsection and subsections (c), (d), (h), (i), (k), (l), (m), and (n) of this section shall apply to any foreign bank that has a branch or other office in a State, as those terms are defined in the International Banking Act of 1976, in the same manner as they apply to an insured bank, and for that purpose the appropriate Federal banking agency shall be the Comptroller of the Currency with respect

to a Federal branch of a foreign bank and the Board of Governors of the Federal Reserve System with respect to a branch or other office operating pursuant to State law.".

TITLE II—TRANSFERS OF CONTROL OF INSURED BANKS

TRANSFERS OF CONTROL

SEC. 201. Subsection (j) of section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817(j)) is amended by inserting at the end of the subsection the following new paragraph:

"(6) (A) No change in ownership of voting stock of any insured bank which would transfer control of the bank to one or more individuals, or to one or more companies or other organizations controlled by such individuals, shall be effective without the prior approval of the Comptroller of the Currency in the case of a national bank or the Board of Governors of the Federal Reserve System in the case of a State bank. No State bank that will be so controlled shall be organized without the consent of the Board of Governors of the Federal Reserve System. Whenever an application for such approval is received from individuals who are neither citizens nor residents of the United States, the agency receiving it shall send a copy to the Secretary of the Treasury and the Secretary of State, and shall wait thirty days for such officials to submit their views before acting on the

application. In determining whether to approve the application the responsible agency shall take into account the effect of the proposal on competition, the convenience and needs of the community affected, the financial and managerial resources of the individuals and banks involved, the future prospects of the banks, and (in the case of any application by individuals who are neither citizens nor residents of the United States) whether the proposal would adversely affect the domestic or foreign commerce of the United States or would otherwise not be in the interests of the United States.

"(B) For purposes of this paragraph, the term 'control' means the power, directy or indirectly, to vote 25 per centum or more of any class of voting stock of a bank.".

TITLE III—CONSORTIUMS

BROADENING THE BANK HOLDING COMPANY ACT OF 1956 TO COVER CONSORTIUMS

SEC. 301. Section 2(a)(2)(A) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(a)(2)(A)) is amended by inserting ", or in concert with," immediately after "acting through".

Senator McIntyre. We call as our next witness a panel of the Conference of State Bank Supervisors represented by: Mr. John B. Olin, superintendent of banks, State of Oregon, accompanied by Mr. Richard K. Lignoul, commissioner of banks and trust companies, State of Illinois, and Mr Leonard Lapidus, first deputy superintendent of banks, State of New York.

I want to welcome you here, gentlemen. And as I understand it, Mr. Olin, you will speak for the conference in your capacity as superintendent of banks, then all of the others can join in on some of the questions we direct to you. Is that satisfactory?

STATEMENT OF JOHN B. OLIN, SUPERINTENDENT OF BANKS, STATE OF OREGON; ACCOMPANIED BY RICHARD K. LIGNOUL, COMMISSIONER OF BANKS AND TRUST COMPANIES, STATE OF ILLINOIS; JOSEPH CIACCIO, DEPUTY COMMISSIONER OF BANKS AND TRUST COMPANIES, STATE OF ILLINOIS; AND LEONARD LAPIDUS, FIRST DEPUTY SUPERINTENDENT OF BANKS, STATE OF NEW YORK

Mr. Olin. Correct, sir.

I won't go into the full statement.

Senator McIntyre. Your statement, of course, will be included in the record in its entirety. Anywhere along the line you can save us a little time by hitting the highlights, fine, but I want you to feel free to testify in any manner that suits you. If you can, save us a little time because I have a lot of questions I want to ask you.

Mr. Olin. Thank you, Mr. Chairman.

Mr. Chairman and members of this subcommittee, I am John B. Olin, superintendent of banks for the State of Oregon and first vice president of the Conference of State Bank Supervisors in whose behalf I am testifying today.

With me are Mr. Richard K. Lignoul, commissioner of banks and trust companies for the State of Illinois, Mr. Leonard Lapidus, first deputy superintendent of banks for the State of New York, and Mr. Joseph Ciaccio, deputy commissioner of banks and trust companies of the State of Illinois.

I would like at this time to summarize several points relative to the position of CSBS on S. 958.

One: The conference does not believe that sweeping legislation of the type proposed is necessary for the regulation of foreign banks in the United States.

Senator McIntyre. Mr. Olin, I have one ear, so if you would bring that microphone right to you. Speak right up.

Mr. Olin. Two: The conference supports the position of S. 958 which would extend the dual banking system by providing a Federal charter option for foreign banks operating in the United States.

Three: There has been no showing that the absence of a Federal licensing prerequisite for foreign banks to operate in the United States has adversely affected in any significant way our national policy objectives relative to the treatment of U.S. banks operating overseas, or with respect to the efforts of foreign banks to establish facilities in the United States.

Four: There are differing views among State bank supervisors as to the necessity of FDIC insurance for foreign branches and agencies. Various States have taken special measures designed to assure the safety and soundness of foreign branches operating within their borders.

FDIC Chairman Frank Wille has expressed some reservations about providing FDIC insurance to foreign branches because of the possibility that extending such coverage to them might jeopardize the Federal deposit insurance fund.

Five: It is the position of the conference that domestic banks are not competitively disadvantaged because of the fact that some foreign banking facilities have securities affiliates in the United States.

Six: It is the position of the conference that domestic banks are not competitively disadvantaged because of the fact that some foreign branches and agencies are in more than one State.

Seven: It is the position of the conference that no showing has been made that membership in the Fed or domestic or foreign banks is necessary fo rthe Fed to carry out its monetary policies.

Mr. Chairman, as you know, foreign banks in the United States operate principally in New Uork, California, and Illinois, and to a lesser extent in Oregon, Washington, Hawaii, and Massachusetts. Total assets of these foreign banks are some $56 billion, about one-third of the overseas assets of U.S. banks.

As your subcommittee has heard during testimony on S. 958. foreign banking facilities in the United States operate almost without exception under a State charter. This has been due largely to the fact that provisions in the National Bank Act require all directors of national banks to be American citizens.

CSBS supports provisions of S. 958 that would remove such restrictive provisions in the National Bank Act in order to facilitate providing a Federal charter option for foreign banks operating here.

However, CSBS opposes proposals in S. 958 which would permit a federally licensed foreign facility to operate in a State, regardless of whether this might contravene State law.

It is the position of CSBS that a State should have the authority to structure the financial institutions within its borders in a manner which it believes best serves the needs and interests of its residents, and that in the absence of some compelling national interest—which we do not believe present in this situation—the Federal Government should not preempt State statutes or regulations in this area.

It has been said that the absence of a unified Federal policy defining where foreign banks may or may not operate could hinder our national policy objectives with respect to treatment accorded U.S. banks operating overseas. However, CSBS is not aware that a showing has been made to this effect.

In fact, Federal Reserve data indicates that in November 1972, there were approximately 108 U.S. banks overseas with some 600 foreign branches and total assets of some $70 billion. As of September 1975, there were 126 U.S. banks operating 751 foreign branches in some 80 countries around the globe with total assets of about $160 billion. This growth pattern would suggest that U.S.

banks are being treated reasonably well overseas under present operating conditions.

Nor has there been a showing that the absence of a unified Federal policy regarding where foreign banks may operate in this country has had a serious adverse effect on foreign banks which now operate in accordance with the laws of the States where they are located. Like our domestic banks, foreign banks operating here have adjusted well to diverse operating procedures or statutory requirements instituted by States to best handle problems unique to a particular area.

Section 25 of S. 958 would provide for future mandatory Federal licensing by the Comptroller of the Currency of commercial bank operations of foreign banks in this country, whether conducted under State or Federal charter.

The reason advanced for the Federal licensing procedures is that it would give the Federal Government the opportunity to consider national interests and foreign policy factors in foreign bank entry as well as banking factors that will be considered by bank regulatory agencies.

This greater Federal role, it is stated. will serve to facilitate greater cooperation among bank regulatory authorities and will strengthen the ability of the Federal Government to obtain national treatment for U.S. banking institutions abroad.

Our State bank supervisors in New York and California—where the overwhelming amount of foreign banking is currently conducted—have followed a policy of consulting with State Department representatives before granding a State charter to a foreign bank applicant to make certain that our national interests would not be compromised by such action. This procedure has worked well.

CSBS is not aware that any showing has been made that the absence of a Federal licensing prerequisite for over 100 years has resulted in frustrating our national policies, or has significantly disadvantaged our banks in their overseas operations. The conference, therefore, does not believe the Federal licensing provisions are necessary in connection with the supervision of foreign banks operating in our country.

It has been claimed that foreign banks operating in this country enjoy certain major competitive advantages over our domestic banks, because the former can branch interstate, and through their affiliates can underwrite and deal in corporate securities in addition to their banking business.

Interstate branching is prohibited to our domestic banks. And under the Glass-Steagall Act domestic banks are prohibited from underwriting and dealing in corporate securities.

CSBS is of the view that domestic banks are not significantly disadvantaged by virtue of either of these privileges granted to foreign banks operating here. A rather small number of foreign banks have multistate branches or agency operations, but the geographic dispersion of such interstate activities is largely confined to New York, California, and Illinois, and to a lesser extent Oregon, Washington, Hawaii, and Massachusetts.

In contrast to this limited interstate activity, the interstate banking activities of our domestic bank holding company nonbank subsidiaries, loan production offices, Edge Act corporations and a nationwide correspondent banking network, make insignificant in comparison the interstate efforts of foreign banks operating here.

As detailed in my written statement, the "American Banker" in recent weeks has featured a number of articles reflecting the spread across the United States of nonbank subsidiaries of bank holding companies. Twelve bank holding companies analyzed in these articles have some 1,550 nonbanking offices located outside the city in which their headquarters are located; approximately 1,400 of these offices are located in States other than that of the anchor bank of the holding company.

In addition, the 12 bank holding companies involved conduct international operations through 34 Edge Act corporations and operate 23 loan production offices.

Aside from the unsupportable claim that foreign branches and agencies through their interstate activities enjoy a major competitive advantage over domestic banks, it is the position of CSBS that a State should be permitted to invite an out-of-State foreign branch or agency to operate within its borders if this is believed consistent with its interests and is not in conflict with the State laws where the out-of-State foreign banking facilities are located.

Illinois, for example, as part of its efforts to develop as an international financial center, has since 1973 invited foreign branches to locate within certain areas of Chicago. It would appear to be in our national interests to permit such development.

To restrict the efforts of Illinois or other States in this area would likely result in foreign banks choosing California or New York, exclusively for their operations in the foreseeable future, to the detriment of other States.

Furthermore, CSBS believes that a State's branching provisions for foreign banks should not be superseded as proposed in S. 958. This bill would provide that a foreign bank could not locate in a second State unless similar privileges are accorded a State-chartered domestic bank.

CSBS does not believe that a State such as Illinois should be unable to invite an out-of-State foreign branch to operate within its borders unless a State bank similarly located shall have similar branching provisions. Branching provisions, affecting either domestic or foreign banking operations, CSBS believes, should be strictly in accordance with State law, consistent with the principles of the McFadden Act.

CSBS, therefore, opposes the provisions of S. 958 which would have the effect of federally restricting a State's ability to invite an out-of-State foreign banking office into its borders.

Under the provisions of S. 958, future ownership interests by foreign banks in securities and other nonbanking companies would be limited to the same extent as domestic banks.

According to data from the Federal Reserve, there are 21 foreign banks with commercial banking operations in the United States

which have interests in U.S. securities affiliates. The Fed has commented that securities affiliates of foreign banks in this country are few in number and small in size with little competitive impact within the securities or banking industries here.

Our domestic banks offer a number of automatic investment plans to depositors and shareholders, and through Edge Corporation subsidiaries abroad, U.S. banks engage in the underwriting, distribution and sale of securities in foreign countries.

CSBS is of the opinion there are no significant competitive advantages occuring to foreign banks operating here as a result of their securities affiliates, and that any Federal legislation in this area should come only after an extensive congressional review of the Glass-Steagall Act such as that now being carried out by the Senate Securities Subcommittee.

If after a review of that act activities now forbidden to domestic banks by that act are continued, CSBS would favor prohibiting such activities for foreign banks. However, should this development occur. CSBS believes it only equitable to grandfather nonbanking operations established on or before the original date of introduction of the Fed's proposal in Congress to regulate foreign banks.

The bill would require Federal Reserve membership for all foreign banking operations in the United States where the foreign bank involved has worldwide assets in excess of $500 million.

The conference opposes this proposal as (1) being discriminatory against foreign banks in that domestic banks with $500 million or more in assets are not required to become members of the Federal Reserve System, and (2) there has been no showing that membership in the Fed of domestic or foreign banks is necessary for the Fed in carrying out its monetary policies.

Monetary policy inadequacies and excesses of the past decade—and for prior periods—cannot reasonably be attributed to the option of affiliation or nonaffiliation of some banks with the Fed for reserve purposes.

Equitable treatment of all banks is also permitted under optional affiliation. Obviously, some State-chartered banks benefit from nonaffiliation while others benefit from membership.

Mr. Chairman, I have copies of the Phillips-Robertson study which I alluded to in my written report, and I would like to deliver these for the record. There is one for each or all, whoever would like one. We have plenty of copies.

Senator McINTYRE. We will put a copy of that in the record. Thank you very much [see p. 393].

I see Mr. Olin, Mr. Lignoul and Mr. Lapidus as they were introduced. But there are four of you at the table. Who is additional one? Your name, sir?

Introduce him, please.

Mr. LIGNOUL. It is Mr. Joseph Ciaccio, who is my deputy commissioner.

Senator McINTYRE. Remember what I said in answering these questions; use that mike.

I would like to address this question to the State banking regulators that are present here this afternoon, particularly those of New York and Illinois.

Would you gentlemen please, in order, outline for the subcommittee what your general experience has been with the foreign banks doing businss within your respective States? In particular, have you had any problems of the type which would require Federal help?

New York?

Mr. LAPIDUS. No, I can't say that we have. We have examined and supervised foreign banks and foreign banking institutions for many years. We have a large, well-trained examining force to do that. The foreign banks have always been cooperative, and I can't say that we have had any problems with them. Our experience has been very good.

Also, we have cooperated very closely with the Federal Reserve System, and we have joint reports. The Fed is kept well informed as to what is happening in the area.

Several years ago, as you may remember, the Fed asked that these agencies and branches maintain special reserve requirements. We supported the Fed in that, and the foreign banking community in fact responded very cooperatively to that. I can't say we have had any problem at all.

Senator MCINTYRE. Thank you.

Illinois?

Mr. LIGNOUL. We have had no problem in Illinois.

Senator MCINTYRE. Well, to elaborate on that a little bit, it may help us if you could just recite what your general experience is from day to day with these foreign banks. What do you encounter? What are some of the problems? Do they just run automatically?

Mr. LIGNOUL. No; we have not encountered any problem with them in Illinois, Senator.

Senator MCINTYRE. You never turned down an application?

Mr. LIGNOUL. Yes.

Senator MCINTYRE. You had a problem, then, didn't you?

Mr. LIGNOUL. Well, we had a problem in that the laws were not reciprocal between the country and our State.

Senator MCINTYRE. I will ask the staff director to ask the question.

Mr. WEBER. Gentlemen, the question is not really focused in terms of problems. You are here this afternoon to help us understand what your own experience has been with respect to foreign banking activity within your respective States.

New York perhaps more than any other State has had substantial experience with foreign banking. We are now contemplating enacting Federal legislation. What in general has been your experience with foreign banking?

It is a general question. It is not attempting to focus on the negative. Expound upon the positive to the extent that you can.

Mr. LAPIDUS. Well, as you know, we have in New York foreign bank subsidiaries which have charters from the State. We have foreign branches, and we have foreign agencies and so-called investment companies.

In general, they do a business to serve their nationals. They fund themselves largely in the money market so the operations are highly professional. Those foreigners who have wanted to do a retail business have generally taken out a State charter so that they can have the benefits of deposit insurance.

Those foreigners who have opted for retail banking, generally have some sort of ethnic representation in New York, such as the Puerto Rican banks and the Israeli banks.

As far as nonretail operations, they are largely devoted to export and import financing. The banks and agencies are staffed by highly professional people, both foreign and American.

We find we have had no particular problems with any of them. They are well managed generally, and well informed, and operate within the laws of the United States and of the State of New York.

I don't know what else I can add to that except to say our experience generally has been good. If there are any specific points that you want to cover as to our experience, I would be very happy to do so.

Senator McIntyre. Well, one of the questions would be what about this growth, this rapid growth, that we have experienced? Has this opened any new problems for your regulators? They are much more active now, are they not?

Mr. Lapidus. Yes; but it has been a growth without change in the character of their business. And since we have been able to cope with the character of their business, we haven't any problems with their growth.

The only thing that occurs to me is that the wholesale operations are very sophisticated, and it has been a challenge to us in terms of keeping our examining staff knowledgeable about what goes on in the foreign area. But I think that that has been impossible to do. It has simply been a challenge to stay abreast of developments in foreign banking.

Senator McIntyre. What about competition? Do some of your domestic banks get hold of you and bend your ear about what they consider unfairness that exists? Do you hear any complaints by domestic banks against foreign banks?

Mr. Lapidus. No; not much at all. The clearinghouse banks, for example, have not complained to us about unfair competition of the foreign banks.

Senator McIntyre. Let's hear from Illinois.

Mr. Lignoul. I have had no complaints.

Senator McIntyre. How long have you been the top man?

Mr. Lignoul. Just about a year.

Senator McIntyre. How about your deputy?

Mr. Lignoul. He has been there a little longer.

Senator McIntyre. Sometimes the deputies are the guys who have been there 20 years.

Mr. Ciaccio. Thank you, Mr. Chairman. I have been there 25 years.

I think the major banks in Illinois, because of their foreign offices and representatives, are eager to have foreign banks organized in Illinois. I think this has tapered off We have now some 22 foreign bank branches in Illinois.

As this gentleman just pointed out, it is a highly sophisticated type of business, one that is different from direct competition with domestic banks. The four major banks who have representative offices in foreign countries, as I said earlier, encourage the entry of foreign banks. They do a type of business with their own nationals. With 22 offices, we only have four branches that have main-floor offices. All are located in office buildings 20, 25, 30 stories in the air.

So from that point of view, I think from the competitive standpoint, it is a different type of competition that is engaged in by domestic banks.

Senator McINTYRE. Could I walk into one of those banks and open an account?

Mr. CIACCIO. Yes, sir.

Senator McINTYRE. It doesn't give you any problems with domestic depositors?

Mr. CIACCIO. No, sir; as a matter of fact, it has been our experience the large banks, First National, Continental, Harrison, and Northern, have encouraged reciprocation with the foreign banks. We have had not a complaint in that area.

Senator McINTYRE. You mean people put money in these banks without the advantages of some of the domestic banks such as FDIC protection? Are lawyers advising people, widows, to put money in these banks?

Mr. CIACCIO. I can briefly outline the framework of our act. The act does have protection in there for the depositors. We require a direct pledge of securities initially, $100,000 and 5 percent of assets, whichever is greater as it grows. These assets are pledged to the Commissioner of Banks and Trust Companies and subject to his control with a depositor arrangement.

We also have 108 percent rule as to the liabilities.

Another protection we feel that is in our act is that foreign branches are required to submit and retain the same reserves, amount of reserves, as the Federal Reserve Bank in that district.

These are the three features of the Illinois Act.

As I say, referring back to Chairman Wille's comment regarding FDIC coverage of this type of thing, I think this type of operation and type of foreign bank operation we have, our protection and our security is adequate.

We also have a reporting system. Once each week, each foreign branch has to report to us that they are maintaining the reserves as required under our act. Our act further requires that these branches be subject to examination and regulation just as any State banks.

Senator McINTYRE. Mr. Olin, we would like you to answer that question. Senator Packwood has sent word he would like to hear what you have to say.

Mr. OLIN. I am flattered because our State is such a small State in the way of foreign banking to be surrounded by these giants in New York and Illinois. On the West Coast, in Oregon, our banks are one Canadian, one Japanese, the Canadian Imperial Bank which has been there since 1865, and the Bank of Tokyo, which has been there since 1965. They are uniquely different banks.

The Canadian bank is strictly a domestic type of bank, domestic operations, lending to consumers, home loans and small businesses and so on, and is about $25 to $30 million in asset size. And the Tokyo bank came in in 1965 as an international bank. And their activities are strictly related to international activities with very little if any domestic-type deposits.

Both banks are required to maintain reserves at 15 and 5 percent level on demand versus time, and we examine them thoroughly once or twice a year. We have had no problems with them at all.

The only problem we had was a legislative matter that was cured in the last legislature where under the branch concept, we had to address ourselves to in-State capital which is a kind of an enigma when you are looking for capital certificates that don't exist. So we removed the capital requirements so we could look at the mother bank instead. And we have the guarantee and full backing of the parent organization.

Senator McIntyre. Mr. Olin, a followup. Some have suggested that the present system operates to the—do you understand my New England dialect?

Mr. Olin. Yes; very well.

Senator McIntyre. OK, over again. Some have suggested that the present system operates to the benefit of foreign banks inasmuch as foreign banks can engage in a multistate operation; whereas U.S. banks cannot.

Other observers maintain that if we compare like activities of competitors that U.S. banks do, in reality, engage in a substantial multistate banking business and are, therefore, at no competitive disadvantage vis-a-vis foreign banks.

Would you please clarify this so that we may compare apples to apples and not apples to oranges?

Do you want me to read that question again?

Mr. Olin. If I understand the question, you are suggesting that the foreign banks have some advantages because of their potential or actually in some cases interstate activities.

I don't regard that as an advantage because it is rather minuscule.

And as I have said in some detail in my written statement and my summary, our domestic banks are in nearly every State in the Union to a great extent even though they don't have interstate direct branching authority.

Senator McIntyre. Would you care to comment on that, gentlemen? New York or Illinois?

Mr. Lapidus. Yes; thank you.

First: I hope that tenure in office doesn't indicate the degree of your confidence. I have been in this job since November 1, though I was with the Federal Reserve System for 13 years prior to that, with most of my experience in bank supervision.

I guess I would like to comment on that. I think that the so-called multistate advantage is probably the one that appears to be most glaring. And I think Mr. Olin has indicated that on a de facto basis, the interstate operations of domestic banks through nonbank subsidiaries is substantial, much more so than anythink foreign banks have done.

But even more than that, I think in this whole debate, something has been lost sight of. That is the multistate possibilities for foreign banks based upon positive legislation by States to allow foreign banks to operate within their borders.

This option is open to any State—to invite a holding company from another State to acquire a bank within its borders. That is if, in fact, New York wanted to have New Jersey holding companies acquire banks in the State of New York, all we would have to do is pass legislation to that effect. That would meet the requirements

of the so-called Douglas amendment. So States could have reciprocal interstate acquisition. And it would be exactly analogous to what has occurred with respect to foreign banks.

In fact, in some sense, New York State is treating more liberally, but on a reciprocal basis, foreign countries than it is treating sister States. But we are not barred from so doing.

Several years ago, there were initiatives taken by the State of New York, inviting, I think, California, and Illinois, to pass such legislation so that the three States could have reciprocal interstate acquisition. You can also have reciprocal interstate branching, but it would only apply to nonmember banks because of the restrictions, if I remember correctly, of 12 U.S.C. 36, and U.S.C. 321 which derives from the McFadden Act and Banking Act of 1933.

So in fact, there really is no discrimination; it is simply a fact that an option has not been exercised by domestic States with respect to other domestic States, but has been taken by domestic States with respect to foreign countries.

Senator McIntyre. Mr. Olin, we on the committee here are struggling with the assertion that because of the impact of foreign banking activity on our credit markets and our monetary policy, that additional authority, over foreign bank reserves should be granted to the Federal Reserve.

Governor Mitchell asserts that the present disparity of reserve requirements results in a competitive advantage to foreign banks. Would you care to comment?

Mr. Olin. Yes, I would be delighted.

I don't think that his assertion has foundation. The monetary policy of the Federal Reserve Bank is largely conducted through open-market operations. And I don't see where membership would give them any more information than they already have.

The States of California and New York and Oregon and Washington, I think practically all of them that have foreign bank activity, have in a cooperative way required their foreign banks to cooperate with the Fed in supplying monthly call reports, the detail of which is substantially more than that required of domestic banks in their quarterly call reports.

That information has been helpful for the Fed, I think, in aggregating information and helpful to state banking departments in some areas. So I think in that effort, their hypothesis is shallow.

Senator McIntyre. Mr. Lignoul, would you like to comment on that?

Mr. Lignoul. No, only to again reiterate that in Illinois, we do require of our banks that same percentage as would be required by Fed member banks.

Mr. Olin. I have one other comment. If the Fed membership is geared indeed along another trail—and that is for sterilization of reserves and the collection of reserves, all of the States required reserves to be maintained, and in our State, as I think most of them, at a higher level than the Fed requires.

In Illinois where there are no required reserves by State banks, they do require foreign banks to maintain them at the same ratio, I believe, as the Fed does.

Mr. LAPIDUS. May I make a comment? To draw the argument back to the analogy about how we treat domestic banking vis-a-vis foreign banking, first, if there is a disadvantage to monetary policy and an issue of equitable competition, the disadvantage and inequity is exactly of the same kind that exists with respect to nonmember banks and member banks.

So in order to make the argument for foreigners, you have also to make the argument for the way we handle domestic banks within the dual banking system.

Senator McINTYRE. In his testimony, Mr. Lapidus, Governor Mitchell alludes to the problems of reciprocity which arise when foreign bank activity is regulated at the State level. For example, he uses New York as an example where because of reciprocity problems with Canada, a Canadian bank cannot open a bank in New York and that reciprocity arrangements such as this limit the areas in which a foreign bank can enter the United States.

He goes on to say that the international relations of the United States are a matter for national policy and not for State policy and that, therefore, the Federal Government and not the States should determine whether a foreign bank affiliate could or should be authorized within a particular State.

Would you care to comment?

Mr. LAPIDUS. Yes. With respect to foreign banking corporations, we have a reciprocity arrangement which essentially says a foreign bank may not establish a foreign branch in New York unless a New York domiciled bank may establish a bank branch or agency in that foreign country.

The situation with respect to Canada is different. There are Canadian trust companies operating in New York which were established prior to the reciprocity law. By long-standing agreement, they do not take deposits. And essentially, therefore, they don't operate as branches or banks, but more like agencies.

And I suppose in that sense, Governor Mitchell has a point. In fact, we have been dealing with foreign nationals on a reciprocal basis, and the Federal Government has not had a direct role. I think there is some truth in that.

Senator McINTYRE. Is that any kind of a problem?

Mr. LAPIDUS. On a de facto basis, I don't think so because foreign banking has grown here very rapidly under these arrangements. And American banks, New York banks, have grown rapidly in foreign countries under these arrangements.

Senator McINTYRE. Mr. Olin?

Mr. OLIN. I think probably the reciprocity concept is——

Senator McINTYRE. Speak up now; I can't hear.

Mr. OLIN. I think the reciprocity concept is more one of nondiscrimination sort of concept, meaning whatever bank would come to this State would operate under our State laws if our banks could go to their countries and operate under their laws.

I think the real question, though, boils down to where is there the demand? As a small example, our legislature for a number of years prohibited foreign banks to come to our state. They did it in a very negative way by requiring FDIC insurance which couldn't

be written. That was removed and purged in the last legislature with the hope of the Economic Development Committee of the state that this would cause a great run and bring in foreign banks to do whatever they do.

We have had two very subtle inquiries. And I think State by State where there is a demand, the foreign banks will evidence their demand by making inquiries. And if the laws prohibit and there is a need, the laws will be changed.

This is something I think should be answered on a State-by-State basis and not on a national basis.

Senator McIntyre. Mr. Olin, Mr. Webster says here that none of the responses we have had went to the question, that part of the question, which says, "the Federal Government," not the State should determine whether the foreign bank affiliate could or should be authorized within a particular State.

I think your answers have said you don't agree with that.

Mr. Olin. That's true.

Senator McIntyre. Mr. Lignoul, how do you see the future development of foreign banking activity? You have been in office for a year. Are there any trends developing as to type of operation such as agencies, subsidiary or branch?

Mr. Lignoul. We just have branches.

Senator McIntyre. Just branches?

Any other comments?

Mr. Lignoul. And I would say that I see the trend as leveling off. I now have 22 banks. I have no applications pending from foreign banks.

Senator McIntyre. You have to make the laws of Illinois as receptive or inviting to foreign banking as you can.

Mr. Lignoul. Yes.

Mr. Olin. As I said, we opened it up in Oregon. but there has been no demand. The closest demand came from a bank in Brazil. And because of the pending legislation in Congress and potential blockage of their coming into this country, they have kind of backed off and said, "If we come in at all, we will come in as a representative office and not a bank."

Senator McIntyre. New York?

Mr. Lapidus. I think the first statement I would make is there is a great deal of foreign interest in coming in and doing banking in New York. I can't with any confidence say in which direction this will go.

In recent years, there has been much more interest in doing a retail business in New York. For example, Barclay's Bank, as you know, some years ago acquired a bank in Westchester. We have had representatives from other foreigners interested in coming in and doing a banking business in New York.

To the extent that they want to do retail banking business, they would undoubtedly establish full-fledged State-chartered banks. From our point of view, there is little difficulty in that because the bank in fact is chartered, and it has all of the rights, powers, and responsibilities of a chartered bank.

As far as we are concerned, when foreign banks come in, it poses fewer competitive problems. So at least in that sense, we certainly would welcome the entry of foreign banks seeking to do a retail or wholesale banking business in the State.

Senator McIntyre. Does anybady know about California? Unfortunately, we don't have a California representative on the panel.

Mr. Olin. I can speak in a general way.

Senator McIntyre. What I want to know is you say it is leveling off; does California feel it is leveling off?

Mr. Olin. I can't speak directly for California, but I can speak for the reports I get from the Commissioner on a monthly basis. There have been relatively few new banks chartered there. They are basically out of the agency and branch business as far as new business is concerned.

But the banks that they have which are subsidiaries and fully under control of the California law, insured, et cetera, have been growing, I think, rather substantially along with the growth rate of California.

Senator McIntyre. I think this question could be answered rather quickly. Are there trends, Mr. Olin, regarding commercial accounts? And do you see such likelihood that more States than and international business versus emphasis on small, individual the present handful will be seeking to encourage foreign banking activity in the future?

Mr. Olin. I am sorry, I missed the first part of your question.

Senator McIntyre. Are there trends regarding commercial and international business versus emphasis on small, individual accounts? And do you see such likelihood that more States than the present handful will be seeking to encourage foreign banking activity in the future?

Mr. Olin. On the subject of banking interest throughout the country, I think that interest has largely been expressed by the past where the banks are largely in the money centers on each seaboard.

As far as the first part of your question, did that relate to the breaking out of individual accounts versus commercial accounts? I would suspect that the subsidiary bank-type accounts might lean toward the smaller type business accounts; the branch type, agency, et cetera, would be largely wholesale operations.

But I think New York would be a good example, Mr. Lapidus could speak to what is happening in New York which would be typical.

Mr. Lapidus. I probably tackled part of that question in my response to the last one.

I would say that there tend to be two kinds of inquiries that we get, two kinds of interests on the part of foreigners.

One is to do the international business, export/import business, and foreign exchange operations and that kind of thing. That is highly professional and would tend to be in the large money market centers.

To the extent that in general such centers are growing more rapidly outside of large money market centers such as New York

City and Chicago, I would expect in the future you are going to see an interest of foreign banks in the cities that become regional money market centers.

I can't predict specifically where these centers are going to be, but I am quite sure if you look down the road 10 or 20 years, that's what you will find.

With respect to the retail interest, as I indicated, in New York, it has been centered with those foreigners who have an ethnic interest, an ethnic population for whom they have some appeal. As I say, in New York, the Puerto Rican banks and the Israeli banks.

However, for example, Barclay's has expanded and is doing a retail business. I think there will be others. But I think it is hard to say what kind of attraction foreign banks are in the outlying areas of New York State without an ethnic appeal.

Nevertheless, Americans are becoming quite cosmopolitan, and they are becoming quite willing to bank with a good English-owned bank, for example, as much as with a good American bank.

Senator McIntyre. In his testimony yesterday—we had the Deputy Secretary of the Treasury, Mr. Gardner, who will be advancing, I believe, to the Federal Reserve, I guess as Vice Chairman.

Mr. Gardner told us about the need in his opinion for Federal oversight and the need for an orderly pattern of regulation for the future. In this regard, do you, Mr. Olin, have any objection to the Federal Government superimposing reporting requirements or even Federal examination over and above that which exists at the State level in furtherance of these legitimate national concerns?

Mr. Olin. Not generally. I do feel, however, that the banks in the principal money centers and in all of the States which have foreign banks are adequately supervised.

Now, the sharing of those examination reports is pretty much up to each individual State to address itself to, but I have no personal objection to that. Because we do share now, for instance, with the Corporation. And we would share with the Comptroller.

Senator McIntyre. Do the other gentlemen agree with that?

Mr. Lapidus. Yes. There would not be any problem.

Senator McIntyre. What about entry? Should entry, as suggested by the Fed, be pursuant solely to an established Federal policy?

Mr. Olin. I think not. I think there should be some clearing with the State Department so we know what the national trends and interests were. But I think the States are perfectly prepared to address themselves to entry problems and the needs of their community.

Senator McIntyre. Any other comments on that?

Mr. Lapidus. Generally, the position of the CBS is that there should be Federal licensing or chartering of foreign banks. That is, that there should be a dual operation for foreigners just as well as for Americans. And in that sense, the Federal presence is perfectly warranted and sensible.

I think that there are some real problems in the proposals in the Fed bill with respect to agencies.

The Fed's proposal goes even beyond the issue of entry. If agencies are defined as banks under the Holding Company Act, in

my own view, the result would be to define as a bank what is much closer to a nonbank subsidiary. That leads to a lot of problems, and I think it violates the underlying logic of the restrictions of the Bank Holding Company Act.

That is, there are many safety restrictions in the Bank Holding Company Act that limit the kinds of risks that a bank holding company can take and that limit the interaffiliate relationships between nonbank subsidiaries and the bank.

The underlying logic is to protect American depositors or protect the Federal Deposit Insurance Corporation from those risks or from interaffiliate dealings that would be injurious to depositors.

Since an agency doesn't accept deposits, defining it as a bank makes it subject to restrictions which have no public interest purpose.

On the other hand you will unnecessarily hobble the kind of activities in which agencies engage.

I think that really is a basic flaw in the proposal.

Senator McIntyre. Mr. Olin, as far as dual banking considerations are concerned, you support a federal option, but reject the notion that the Federal Government should be able to authorize the presence of a foreign bank within a given State if tne State does not concur?

Mr. Olin. That's true.

Senator McIntyre. Isn't this inconsistent with present policy regarding the ability of a national bank to locate within a given State regardless of State concurrence?

Mr. Olin. I don't think so. The national bank can locate in any State as a bank, but when we get down to braching concepts, then they must recognize State branching laws. And that is basically what we are talking to.

We have the further problem with the bill on chartering in that national banks under this bill would be able, or the Comptroller would be able, to charter a national bank in any State if they didn't want to have a foreign bank. We think that right should be reserved to the States. So if a State will permit a foreign bank, yes, there should be a national option.

Senator McIntyre. Mr. Weber has a distinction.

Mr. Weber. It is just a question of whether or not when you talk about any parallel that can be drawn between the present system regarding national bank entry and prospective foreign bank entry in a particular State, whether or not there wouldn't be distinctions to be drawn between whether, as you suggest, you are talking about an agency or branch which you say distinguishes between any parallel made to the national banks, and subsidiaries which are set up in the name of a bank.

And, therefore, should not foreign subsidiaries be able to come in by reference to the existing system nationally, regardless of State concurrence?

Mr. Olin. I probably lost you on the first turn of your question.

The subsidiaries can come into States now even though they are foreign controlled. There might be some laws that except that, but they certainly can't in our State, and they can obviously in Cali-

fornia. And there could be national banks there, too, except for the problem of the directorship. And that is proposed in the bill to be relaxed—foreign origin of the director.

Mr. LAPIDUS. To clarify my position, I have no objection to Federal chartering or licensing of foreign banks in any State in the Union.

Senator MCINTYRE. With or without this?

Mr. LAPIDUS. But I do have an objection to branches and agencies. Agencies, particularly, as indicated because I do not consider them to be banks. They are much closer to nonbank subs.

Senator MCINTYRE. Do you feel the same way?

No, sir, I believe whether or not a foreign bank possessing a Federal charter, or certificate of authority, may operate in a State should be dependent on State law. If a foreign bank under a State charter is not permitted within a particular State, it is my position and the position of the Conference of State Bank Supervisors that a federally chartered institution may not enter that State in contravention of State law.

Senator MCINTYRE. Gentlemen, in a letter submitted for the record, the Comptroller of the Currency states the following:

> My impression is that foreign banks like our own are taking a hard look at balance sheet considerations and, therefore, considerable expansion by foreign banks in the United States is unlikely in the year ahead.

The Comptroller goes on to state that these balance sheet considerations will operate as a natural governor on major foreign bank expansion in the United States in 1976.

Do you agree, Mr. Olin?

Mr. OLIN. I don't think I fully understand what he is saying.

Senator MCINTYRE. Balance sheet considerations.

Mr. OLIN. Is he talking about ratios? Is he talking about loan saturation?

Senator MCINTYRE. I would think that the balance sheet consideration would be how I would look at the balance sheet if I was thinking of investing in that particular bank.

Mr. OLIN. In that consideration, I think investors do and depositors do. Sitting on the complaint desk from time to time in our State, we get questions from customers, "Gosh, this bank doesn't have FDIC insurance, are we going to be safe?"

And I say, "You better look at the balance sheet."

And when they look at the balance sheet of a Canadian bank, they see the loan-to-deposit ratio is low, and capital is relatively high, and earnings are great. And they have a difficult time regarding some of the things in the report, but we have not had problems in that area. So we have been able in a comfortable way to say, "Yes, this is a good bank."

Another bank which is an international trading bank, hadn't been attracted to this particular type of analogy. Their accounts have been trading acounts.

Senator MCINTYRE. How does New York feel about this? The Comptroller is telling us he doesn't think there is going to be any flurry of excitement in 1976; it is going to level off a little bit;

consideration of the balance sheets of their banks are going to be a factor.

Mr. LAPIDUS. If you promise not to call me back in a year and tell me my prediction is lousy——

Senator MCINTYRE. I promise I will not call you back in a year. You have a firm guarantee in writing.

Mr. LAPIDUS. On the basis of simply the conversations and evidence of interest, I would think there is still continued interest by foreigners to bank in the United States.

I would also point out that I was told, although I didn't check, bank prices today in terms of the usual kinds of ratios, price/earnings ratios, price/dividend ratios, are lower today than they were on the day the banks reopened in 1933 that would make them rather attractive acquisitions for anyone who wants to establish a banking presence here.

So in fact, American banks may be priced rather attractively to foreigners who would like to engage in banking here.

But I won't hang my hat on that, rather mainly on the fact that we see evidence of continued interest by foreigners in banking in the United States.

Mr. LIGNOUL. Mr. Chairman, I had already addressed myself to it, I think, when I said that it has peaked as far as Illinois is concerned because we no longer have any applications pending in Illinois.

Senator MCINTYRE. OK. Well, gentlemen, the last question. We submitted to you an outline of about seven, possibly more, things that we could do. Supposing the subcommittee after full hearings decides to bring to the attention of the full committee that it does seem, after hearings, that there is a need to establish a better Federal handle over foreign banking in the United States.

So I submitted these things to you, asking for your comment. You don't need to give them to me today. Sit down and write us a letter for inclusion in the record on how you feel about these suggestions in this memo.

With that, thank you all for your attendance here today, your helpful testimony.

Mr. OLIN. It was a pleasure being here, It was nice meeting with you.

[The full statement of the Conference of State Bank Supervisors, the Robertson-Phillips pamphlet, and additional comments of the above witnesses follow:]

STATEMENT OF MR. JOHN B. OLIN

ON BEHALF OF

THE CONFERENCE OF STATE BANK SUPERVISORS

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

COMMITTEE ON BANKING, HOUSING AND

URBAN AFFAIRS

U. S. SENATE

RE: S. 958 - THE FOREIGN BANK ACT OF 1975

JANUARY 29, 1976

Mr. Chairman, and members of this Subcommittee, I am John B. Olin, Superintendent of Banks for the State of Oregon and First Vice President of the Conference of State Bank Supervisors, in whose behalf I am testifying today. With me are Mr. Carl J. Schmitt, Superintendent of Banks for the State of California, Mr. Richard K. Lignoul, Commissioner of Banks and Trust Companies for the State of Illinois, and Mr. Leonard Lapidus, First Deputy Superintendent of Banks for the State of New York.

The Conference of State Bank Supervisors (CSBS) is composed of officials of the state governments responsible for the supervision of state-chartered commercial and mutual savings banks in the 50 states, and of such officials in the Commonwealth of Puerto Rico, Guam and the Virgin Islands. Our responsibilities embrace the supervision of approximately 10,200 state-chartered domestic commercial and mutual savings banks with assets of some $500 billion. State-chartered U. S. banking offices of foreign banks coming within our supervision have assets of approximately $55 billion. These foreign banks are located principally in New York and California, and to a lesser extent in Illinois.

The Conference is pleased to have the opportunity to appear before your Subcommittee in connection with S. 958 because foreign banking operations in this country have grown rapidly in the past few years, and as a result there have arisen many questions relative to regulatory policies governing the operations of such banks.

Questions relative to regulatory policy considerations have arisen principally because foreign banks in this country operate almost without exception under charters granted by state banking departments. And, it is claimed by some that in the absence of a unified federal policy affecting foreign banks in this country, some unfair competitive advantages accrue to foreign banks vis-a-vis domestic banks, that the current pattern of state regulation may lead to anticompetitive as well as other results that may not be in our national interests, and that the present situation creates a gap in the Federal Reserve Board's control over domestic monetary conditions.

It is true that foreign banks have been operating in this country chiefly under state charters for many years. Under state regulation the operations of foreign-owned banks have grown steadily through the years, and within the framework of our decentralized banking system it is anticipated this activity will continue to grow and to increasingly serve as a competitive stimulus to our banking and financial markets.

The choice of a state charter for the U. S. banking offices of foreign banks has been due largely to the fact that provisions in the National Bank Act require all directors of national banks to be American citizens. In this connection, CSBS supports the provisions of S. 958 that would remove such restrictive provisions in the National Bank Act in order to facilitate providing a federal charter option for foreign banks operating in this country. This

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principle of dualism - the choice of operating under a federal or state charter - is an essential of our present dual banking system. CSBS supports this option for foreign banks as being consistent with its support of a federal charter option for mutual savings banks which presently operate solely under state charters in 17 states. However, CSBS opposes proposals in S. 958 which would permit federally licensed branches to operate in any state, regardless of whether that state might permit foreign bank offices under a state charter. It is the position of CSBS that a state should have the authority to structure the financial institutions within its borders in a manner which it believes best serves the needs and interests of its residents, and that in the absence of some compelling national interest - which we do not believe present in this situation - the federal government should not preempt state statutes or regulation in this area.

Foreign-owned banks may operate today under state charters in some ten states subject to the regulations of those states.[1/] The overwhelming amount of foreign banking activity, however, is centered in New York and California principally because of their importance as trade and financial centers. Illinois enacted legislation in 1973 permitting foreign branches in the Chicago area.

1/ Alaska, California, Georgia, Hawaii, Illinois, Massachusetts, New York, Oregon, Utah and Washington. A few states specifically prohibit foreign banks. Several state statutes are silent in this area.

CSBS is not aware that the absence of a unified federal policy defining where foreign banks may or may not operate has hindered our national policy objectives with respect to treatment accorded U. S. banks operating overseas. There have been statements that because some states have chosen not to permit foreign banks to operate within their borders, this could hinder the efforts of domestic banks headquartered in such states to secure operating privileges in some foreign countries. CSBS does not believe there is evidence that the actions of states in this regard have resulted in seriously disadvantaging our domestic banks. Illustrative of this are statistics issued by the Federal Reserve System showing that as of September 1975 there were 126 U. S. banks operating 751 foreign branches in some 80 countries around the globe with total assets of about $135 billion. In addition, according to the Fed's data, there are a large number of domestic banks with foreign subsidiaries with another $25 billion in assets. Taken together, these overseas facilities are about three times as large in terms of assets as those of foreign banks operating in the United States.

Nor has there been a showing that the absence of a unified federal policy has had any seriously adverse effect on foreign banks which now operate under laws of the states in which they are located. Like our domestic banks, foreign banks operating here have adjusted well to diverse operating procedures or statutory requirements instituted by states to best handle problems unique to a particular area. Figures

released by the Federal Reserve System would seem to substantiate this. From November 1972 when the Fed began its monthly reporting system for foreign bank operations in this country through September 1975, the number of foreign banking facilities in the U. S. increased from 104 to 181, and total U. S. assets more than doubled from $24 billion in November 1972 to $56 billion in September 1975. However, impressive as this growth is, it must be recognized that this constitutes only 6.5% of all U. S. commercial bank assets, and that the assets of U. S. banks operating overseas also grew during this same period at a somewhat comparable rate.

In carrying out their chartering responsibilities, the California and New York Banking Departments have followed the practice of consulting with U. S. Department of State representatives to assure that no state charters were granted to foreign bank operations which might be contrary to our national interests.

Section 25 of S. 958 would provide for future mandatory federal licensing by the Comptroller of the Currency of commercial bank operations of foreign banks in this country, whether conducted under state or federal law. This federal licensing requirement would cover foreign bank subsidiaries, foreign branches or agencies. The Comptroller would be prohibited from issuing a license if the Secretary of the Treasury, after taking into account the views and recommendations of the Secretary of State for the United States and the Board of Governors of the Federal Reserve System, determines that the issuance of a federal banking license would adversely

affect the domestic or foreign commerce of the United States or would otherwise not be in the interests of this country.

The reason advanced for the federal licensing procedures is that it would give the federal government the opportunity to consider national interests and foreign policy factors in foreign bank entry as well as banking factors that will be considered by bank regulatory agencies. This greater federal role, it is stated, will serve to facilitate greater cooperation among bank regulatory authorities and will strengthen the ability of the federal government to obtain national treatment for U. S. banking institutions abroad.

The Conference of State Bank Supervisors is certain that the state banking authorities in those states where foreign banks may locate would be pleased to participate in consultative procedures with the appropriate U.S. State Department or Treasury Department representatives in connection with entry requests of foreign banks because state officials are as interested in furthering our national interests as are federal officials. However, it should be pointed out that no showing has been made of any sort that the lack of a federal licensing procedure for over a hundred years has resulted in frustrating our national policy objectives, nor has any evidence been produced that the lack of such procedures have significantly disadvantaged our banks operating overseas.

Furthermore, the Conference does not believe that foreign agencies should be under the federal licensing provisions of S. 958. The provisions of S. 958 would make both

foreign branches and agencies "banks" within the terms of the Bank Holding Company Act. However, since foreign agencies do not accept domestic deposits, it would appear that these operations should not come within the provisions of the Bank Holding Company Act and that they should not be subject to the federal licensing provisions of S. 958.

Alleged Advantages of Foreign Banks Over Domestic Banks

It has been contended that because of the absence of federal regulatory controls over foreign banks they enjoy some major competitive advantages over domestic banks. The Federal Reserve has pointed out that one of the principal regulatory advantages for a foreign bank in operating through branch and agency forms of organization is that branches and agencies are not legally subject to any of the reserve requirements or other regulations affecting monetary policy placed on the operations of national and state member banks.

The above data could be easily misinterpreted. All states with branches of foreign banks apply reserve requirements equivalent to those of state banks. Even in Illinois, where there are no state reserve requirements, branches of foreign banks are required to maintain reserves equal to those required by the Federal Reserve of state member banks. Foreign agencies do not accept domestic deposits and reserves are not maintained against them. In New York, where nearly all foreign branches are located, in addition to reserves, foreign branches must maintain a special liquidity reserve in the form of five percent of assets segregated

and maintained under a restricted deposit agreement subject to withdrawal only with the consent of the New York State Superintendent. Restricted as this reserve is, it is over and above vault cash and other liquidity reserves. Thus, in actual practice, foreign branch reserves may well be higher than those of domestic banks, albeit in more flexible forms. The net result is no significant advantage to foreign facilities.

As will be pointed out in subsequent paragraphs of this statement, CSBS does not believe the Federal Reserve needs reserve-setting authority over foreign banks, branches or agencies, or more importantly over state-chartered domestic banks, in conducting its monetary policy responsibilities.

Another alleged advantage of foreign branches and agencies is the fact that they are not subject to any federal restrictions on multi-state banking and thus can be established in any state that permits entry even if a foreign bank has a state or federally-chartered subsidiary bank in another state. According to Federal Reserve data, there are 44 foreign banks which have commercial banking operations (agencies or branches) in more than one state.

CSBS believes this alleged competitive advantage should be placed in perspective. Most of the multi-state foreign branches or agencies are located in California, New York and Illinois, although a few are in Illinois, Massachusetts, Washington, Oregon and the Virgin Islands.

The rather small number of foreign multi-state branching or agency operations, and the limited geographic

representation of such multi-state activities are reflected in data from the Federal Reserve System, which is attached as Exhibit #1.

In contrast with this limited interstate banking activity of foreign branches and agencies, domestic banks engage extensively in interstate banking operations. Domestic banks utilize a wide range of multi-state bank holding company bank and nonbank affiliates, Edge Act Corporations, loan production offices, traveling loan and deposit-producing officers, and a nationwide correspondent banking network that make insignificant, in comparison, the interstate efforts of foreign banks operating in this country.

In recent weeks the American Banker newspaper has featured a number of articles reflecting the spread across the United States of nonbank subsidiaries of bank holding companies.[2/] Twelve bank holding companies have been analyzed in detail in these articles as to the number of the nonbank offices of each, and the number of states in which they operate. The identities of these bank holding companies are set forth in Exhibit #2.

According to data reflected in these articles, the main offices of the anchor banks of the twelve bank holding companies reviewed are located in seven states, yet the offices of their nonbank subsidiaries are located in forty-three states. These twelve bank holding companies have 1550 nonbanking offices located outside the city in which their

2/ American Banker issues of: October 23, November 5, 13 and 20; December 4, 12, 22 and 29, 1975; January 6, 13 and 21, 1976.

headquarters are located; approximately 1,400 of these offices are located in states other than that of the anchor bank of the holding company. In addition, the twelve bank holding companies conduct interstate operations through thirty-four Edge Act Corporations and twenty-three loan production offices.

According to the American Banker articles, the nonbank subsidiaries of the twelve bank holding companies are engaged in a wide range of "banking" related activities. These activities (the number of the twelve holding companies which engage in the particular type of operation is listed in parenthesis) are as follows: consumer and sales finance (11); mortgage banking (11); leasing (10); selling and reissuing credit-related insurance (9); factoring (7); investment management advice (6); real estate advice (5); providing venture capital to small businesses (5); computer services (3); trust services (2); marketing travelers checks (2); commerical leasing (1); management consulting (1); urban redevelopment (1); credit card services (1); travel services (1); making and servicing of government guaranteed student loans (10); various accounting services (1); and underwriting insurance (1). Four of these bank holding companies own financial intermediaries operating in other states which can gather funds at the retail level through the sale of thrift certificates. Three own industrial banks which operate primarily in Colorado; and one owns a thrift and loan association in California.

Thus, by comparison, U. S. banks conduct a far more significant level of interstate operations than do foreign banks.

Aside from the unsupportable claim that the interstate activities of foreign branches and agencies enjoy a major competitive advantage over domestic banks, it is the position of CSBS that a state should be permitted to invite an out-of-state foreign branch or agency to operate within its borders if this is believed consistent with its interests and is not in conflict with the state laws where the out-of-state foreign banking facilities are located. This is a judgmental question which is best handled at a state level. Illinois, as mentioned earlier, has since 1973 invited foreign branches to locate within certain areas of Chicago. This action is part of the State's efforts to develop as an international financial center. CSBS believes it to be in our national interests to permit such development. To do otherwise in the foreign banking field would likely result in foreign banks choosing California or New York, exclusively, for their U. S. operations, to the detriment of other states.

Under the provisions of S. 958, amendments would be made to the Bank Holding Company Act which would provide that branches and agencies of foreign banks could not be established outside of a foreign bank's state of principal banking operations unless a state bank in that state could also establish such offices. It is the position of the Conference that branching provisions affecting either domestic or foreign banking operations should be strictly in accordance with state law, consistent with the principles of the McFadden Act. CSBS, therefore, opposes the provisions of S. 958 which would have the effect of restricting a

state's ability to invite an out-of-state foreign banking office into its borders without also tying to that invitation a provision that a domestic, state-chartered commercial bank similarly located out-of-state could also establish an office.

In connection with the above, it is interesting to note that the State of Maine last year passed a statute, effective January 1, 1978, which provides for reciprocal interstate holding company acquisitions of banks. Maine is the first state to pass such legislation although similar action has been considered in the past by New York and California.

Another alleged major competitive advantage for foreign banks is the fact that foreign banks, through subsidiaries and affiliates, may underwrite and deal in corporate securities in addition to their banking business. These activities in the U. S. are prohibited to domestic banks under the Glass-Steagall Act of 1933. According to data from the Federal Reserve, 21 foreign banks with commerical banking operations in the U. S. have interests in U. S. broker-dealers.

The securities affiliates of foreign banks are relatively few in number and are located principally in New York City, engaging primarily in brokerage activities for foreign customers of these foreign banks.

The Federal Reserve during 1975 in commenting on the provisions of a bill to regulate foreign banking in the U. S., stated that securities affiliates of foreign banks in this country are few in number and small in size with little competitive impact within the securities or banking industries here.

It should be borne in mind that our domestic banks offer a number of automatic investment plans to depositors and shareholders, and through Edge Corporation subsidiaries abroad, U. S. banks can, and do, engage in the underwriting, distribution and sale of securities in foreign countries.

CSBS is of the opinion there are no significant competitive advantages accruing to foreign banks operating here as a result of their securities affiliates, and that any federal legislation in this area should come only after an extensive Congressional review of the Glass-Steagall Act such as that now being carried on by the Senate Securities Subcommittee. If, after a review of that Act, prohibitions are continued on domestic banks from engaging in activities now forbidden to them by that Act, the Conference would favor prohibiting such activities to foreign banks. However, should this development occur, the Conference believes it only equitable to grandfather nonbanking operations established on or before the original date of introduction of the Fed's proposal in Congress (December 3, 1974) to regulate foreign banks. Such grandfathering would also be desirable in order to prevent retaliatory action against U. S. banks abroad.

Mandatory Membership in the Federal Reserve System

S. 958 would require Federal Reserve membership for all foreign banking operations in the U. S. where the foreign bank involved had worldwide assets in excess of $500 million. Such foreign banks would have to maintain reserve requirements and conform to other provisions of the Federal Reserve Act with respect to their operations in the United States,

and would have access to the discount and lending facilities of the Federal Reserve. The exception made for foreign banks with less than $500 million in world-wide assets is on the grounds that banks of that size are likely to come to the U. S. for specialized purposes and that such treatment is comparable to that given domestic banks.

The Conference of State Bank Supervisors opposes the mandatory membership provisions of S. 958 because: (1) they are discriminatory against foreign banks in that domestic banks with $500 million or more in assets are not required to become members of the Federal Reserve System, and (2) there has been no showing that membership in the Fed of domestic or foreign banks is necessary for the Fed in carrying out its monetary policy responsibilities. It is the position of the Conference of State Bank Supervisors, that effective monetary policies are not contingent on the sole determination of state-chartered bank reserves by the Fed or by placement of state-chartered bank reserves in the Federal Reserve System, whether subject banks be domestic or foreign.[3/]

Other factors control aggregate monetary conditions. To quote briefly from the Robertson-Phillips study, a copy of which is being furnished for the record:

3/ A CSBS commissioned study by Professors Ross M. Robertson and Almarin Phillips entitled Optional Affiliation With the Federal Reserve System for Reserve Purposes is Consistent With Effective Monetary Policies demonstrated that optional affiliation of state-chartered banks with the Fed for reserve purposes has not significantly impaired monetary policies nor can be expected to do so in the future.

> There is substantial agreement that the reserve measure most useful for control purposes is the monetary base (base money), which is defined as the net monetary liabilities of the federal government (i.e., the Federal Reserve and the U. S. Treasury)... Growth of the monetary base is essentially determined by Federal Reserve holdings of U. S. government securities, the major source component of the base. Although views differ on the precision with which the monetary base can be regulated, the consensus among monetary economists is that its size can be set within very close tolerances on a monthly basis.

The control of the monetary base by the Federal Reserve is not contingent on compulsory affiliation of state-chartered banks with the Fed for reserve purposes.

The Conference of State Bank Supervisors is unaware of any showing by the Fed that monetary policy inadequacies and excesses of the past decade - and for prior periods - can reasonably be attributed to optional affiliation or nonaffiliation of some banks with the Fed for reserve purposes.

Equitable Treatment: Nor is the compulsory affiliation question, in a valid sense, one of inequitable treatment of member vis-a-vis nonmember banks. It frequently has been stated that only member bank reserves placed with the Fed are idle reserve assets; that state-chartered nonmember bank reserves, which most typically are deposited with correspondent banks as demand balances and less frequently held in the form of government securities, earn a return; and

therefore that member banks are inequitably treated.

That is only a half-truth.

Both member and nonmember banks have diverse noninterest-bearing reserve type assets. Both groups also have diverse noninterest-bearing liabilities related to member/nonmember status. Both groups obtain certain benefits from noninterest-bearing assets, as well as incur certain costs in connection with noninterest-bearing liabilities.

The Conference of State Bank Supervisors has near completion an in-depth study of benefits and costs associated with noninterest-bearing asset and liability items as they relate to the member/nonmember equitable treatment question. 3/

This study, based on year-end 1972 and year-end 1973 data, can be summarized by the following eleven statements:

1. Obviously, only member banks hold reserves with the Fed.
2. Member banks hold reserves in the form of currency and coin in their vaults at levels comparable to nonmember banks.

3/ Within this framework noninterest-bearing assets include reserves with Federal Reserve banks, demand balances with banks in the U.S., and currency and coin. The sum of these is expressed as a ratio to total deposits. Noninterest-bearing liability items include demand deposits from commercial banks in the U.S., demand deposits from mutual savings banks demand deposits from the U.S. government, and demand deposits from states and political subdivisions. The sum of these is also expressed as a ratio to total deposits. The criteria used in selecting these liability items are (1) large accounts; (2) low activity or low administrative cost per dollar of account; and (3) deposits which were believed to be made significantly more attractive by virtue of the charter status of the deposit-receiving bank.

3. Member banks also hold noninterest-bearing assets in the form of demand balances with banks in the U. S. Members' noninterest-bearing "due from commercial bank" assets, however, average only about one-half those of nonmember banks of comparable size.
4. Total noninterest-bearing financial assets as mentioned above of member banks average higher per dollar of total deposits than nonmembers (11.2% vs. 9.3%, a 1.9 percentage disadvantage for member banks as a whole).
5. Member banks, however, on average enjoy higher ratios of attractive noninterest-bearing liabilities attributable to or associated with member/nonmember status (7.5% vs. 4.6%, a 2.9 percentage advantage for member banks as a whole).
6. Since member banks have a 1.9 percentage disadvantage in noninterest-bearing reserve-type assets but enjoy a 2.9 percentage advantage in noninterest-bearing liabilities, it would appear, on the surface at least, that member banks as a whole have a 1.0 percentage net advantage, rather than a disadvantage by virtue of their Federal Reserve affiliation. Other factors, however, must be considered and are summarized below.
7. Member banks enjoy certain noninterest benefits from noninterest-bearing assets. From their <u>reserves</u> placed with the Fed, and in the form of currency and

coin they get:

a. Check clearing services.

b. Management consulting services, including profit analyses.

c. Currency and coin conveniences.

d. Discount privileges.

e. Added assurance of back-up strength by virtue of direct affiliation with the central bank as lender of last resort.

f. Billions of dollars of correspondent balances in the form of noninterest-bearing demand deposits. Ninety-six percent of all correspondent balances go to member banks.

8. Member banks also enjoy certain noninterest benefits from noninterest-bearing nonreserve assets in the form of demand balances with banks in the U.S. These benefits include:

a. Check clearing services.

b. Loan participations.

9. Nonmember banks, somewhat like member banks, enjoy certain noninterest benefits from their noninterest-bearing assets held largely in the form of demand balances with banks in the U. S. and currency and coin. Nonmember benefits include:

a. Check clearing through their correspondent bank.

b. Management consulting, including portfolio investments and trust services.

c. Currency and coin.

d. Loan participations.

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10. Member and nonmember banks also incur certain costs in holding noninterest-bearing liabilities associated with their member/nonmember status. These costs include:

    a. Check processing services provided for respondent banks.

    b. Management consulting.

    c. Currency and coin handling.

    d. Lending function - although in some cases directly as profitable as other bank functions.

    e. A network of traveling correspondent bank officers and supporting internal staffs.

11. Taking into account member/nonmember ratios of major noninterest-bearing assets and liabilities associated with member/nonmember status plus benefits and costs attributable thereto, it cannot be demonstrated that member banks as a whole are inequitably treated. Obviously, however, some state-chartered banks benefit by nonmembership, particularly if they do not choose to play a major role in providing correspondent services. Equally obvious, other state-chartered banks benefit by membership in the Fed, particularly if they choose to play a major role in providing correspondent services. The marketplace tends to determine choices of the two respective groups. The net product is a dynamic interbank correspondent system which serves well the public interest. Whatever inequitable treatment there may be

for individual member or nonmember banks, it can best be resolved by other than compulsory affiliation with the Fed for reserve purposes.

The inequitable treatment issue as it relates to member/nonmember status per se with the Fed is demonstrably invalid.

Banking Structure: The primary valid issue in question is that of the banking structure in the broader sense.

More specifically is the question of whether or not our nation shall have a private system of interinstitutional relationships or a government controlled and operated system.

Continued optional affiliation with the Fed for reserve purposes will help to assure a relatively free and flexible private system. The primary stimulant to the dynamics of that private system is the approximately $20 billion of non-interest-bearing and otherwise attractive demand deposit liabilities (net, after adjustment for cash items in the process of collection) which correspondent banks have from respondent banks (commercial and mutual savings banks) and from savings and loan associations. These balances are a great stimulant to an array of services which are in the public interest. Compulsory affiliation with the Fed for reserve purposes would reduce those private service stimulating balances from nonmember banks by approximately 50%, according to studies conducted by CSBS.

Concomitant with various proposals for compulsory placement of non nonmember domestic bank reserves with the Fed and a resulting sharp reduction in nonmember balances largely

with member banks, correspondent functions would be translocated from the private to the government sector of the economy. In like manner, S. 958 would inevitably translocate the decision-making process of foreign facilities from the private to the government sector of the economy.

This would violate the public interest. A government controlled and operated system of interinstitutional relationships could not be expected to achieve the efficiency, sensitivity to the annual need for billions of diverse transactions and sensitivity to the needs of widely diverse trade areas inherent in the now largely private, decentralized, flexible system. It would be impossible for a centralized agency of the federal government to establish and control a system which could perceive and respond to the diverse needs of Concord, New Hampshire and Paris, France, as effectively as our present dynamic private international banking system.

Centralization Per Se: By its nature, the central bank of any nation is centralized. Monetary policy is a centralized function in that it most appropriately is effected in an aggregate manner. It works most appropriately through monetary aggregates then leaves to the relatively free economy the allocation and use of those monetary aggregates. At least that is the way it works so effectively in the relatively free American marketplace. Direct control by a central bank over all individual private banks is not necessary to the achievement of effective monetary policies in a free economy.

Compulsory membership of foreign banking facilities

with the Fed would be an undesirable step towards centralization of the economic decision-making processes, would at best obscure appropriate aggregate monetary policy goals and would be without offsetting benefits, assuming the desirability and intent of continued decentralized socio-economic decision-making.

Conclusion: Continued optional affiliation of state-chartered domestic banks with the Federal Reserve for reserve purposes will be in the public interest. That system is consistent with effective monetary policies, and equitable treatment of banks. These same concepts are largely applicable to the question of optional membership of foreign banking facilities with the Federal Reserve.

FDIC Insurance for Branches and Agencies of Foreign Banks

Subsidiary banks of foreign banks are required by the Bank Holding Company Act to carry Federal Deposit Insurance. S. 958 would require FDIC insurance be extended to branches and agencies of foreign banks.

There is a difference of views among State Bank Supervisors as to the necessity of extending FDIC insurance to branches and agencies of foreign banks. However, state banking departments examine all foreign-owned state-chartered subsidiaries, agencies and branches at least once a year. Because the FDIC does not insure deposits in branches of foreign banks and because capital in a branch is a nebulous concept, states have resorted to various statutory or regulatory "substitutes" and approaches to assure soundness.

The statutory approach is generally patterned after New York banking law (Sec. 202-b) which requires that:

1. (a) Upon opening a branch and thereafter, a foreign banking corporation...shall keep on deposit,...with such banks or trust companies or private bankers or national banks in the state of New York as such foreign banking corporation may designate and the superintendent may approve, interest-bearing stocks and bonds, notes, debentures, or other obligations of the United States or any agency or instrumentality thereof, or guaranteed by the United States, or of this state, or of a city, county, town, village, school district, or instrumentality of this state or guaranteed by this state, or dollar deposits, or obligations of the International Bank for Reconstruction and Development, or obligations issued by the Inter-American Development Bank, or obligations of the Asian Development Bank, to an aggregate amount, ...of not less than one hundred thousand dollars; provided, however, that the superintendent may from time to time require that the assets deposited... may be maintained by the foreign banking corporation at such amount as he shall deem necessary or desirable for the maintenance of a sound financial condition, the protection of depositors and the public interest, and to maintain public confidence in the business of such branch or branches...

2. Each foreign banking corporation shall hold in this state currency, bonds, notes, debentures, drafts, bills of exchange or other evidences of indebtedness or other obligations payable in the United States or in United States funds or, with the prior approval of the superintendent, in funds freely convertible into United States funds, in an amount which shall be not less than one hundred eight per centum of the aggregate amount of liabilities of such foreign banking corporation payable at or through its agency, agencies, branch or branches in this state...(The Superintendent)...may require such foreign banking corporation to deposit,...the assets required to be held in this state...with such banks or trust companies or private bankers or national banks located in this state, as such foreign banking corporation may designate and the superintendent may approve.

The above requirement, referred to generally as the "108 percent rule" has found its way into the statutes or practices of Illinois, Massachusetts and Washington. The State of Illinois requires foreign branches, in addition to the 108 percent rule, to maintain interest bearing obligations or dollar deposits of not less than the greater of $100,000 or five percent of total liabilities, such obligations or deposits to be maintained with a state or national bank.

As a matter of interest, it should be noted that the Federal Deposit Insurance Corporation on December 30, 1975 made public a letter of comment which it had sent to the

House Subcommittee on Financial Institutions Supervision, Regulation and Insurance relative to proposals in H.R. 5617 (The Foreign Bank Act of 1975) to extend FDIC insurance to foreign branches and agencies.

FDIC Chairman Frank Wille concluded in his letter that:

> "...it is our view that the Federal Reserve has established no clear need for regulating foreign bank operations in this country differently from those of domestic banks. We therefore believe that, if existing law stays as it is for domestic banks, both Federal Reserve membership and Federal deposit insurance should be made available to foreign banks' domestic operations only on an optional basis and that if a foreign bank wishes to qualify for Federal deposit insurance, it continue to be required, as at present, to establish a separately incorporated domestic subsidiary. Domestic branches and agencies of foreign banks should not be made eligible for Federal deposit insurance without a full appreciation by the Congress of the substantial financial risks this could entail for the Federal deposit insurance fund..."

Mr. Chairman, the Conference of State Bank Supervisors does not believe that sweeping legislation of the type proposed is necessary for the regulation of foreign banks in this country. CSBS supports the necessary amendments to the National Bank Act to facilitate the providing of a national charter option for foreign banks operating in this country. But this option should not carry with it the right

to permit a foreign banking office to enter a state in contravention of state laws. Nor should branching provisions of a state relative to a domestic state bank be altered by this federal legislation regarding foreign banks.

Further, the Conference is not aware of any evidence presented by the Fed that its monetary policy objectives are being thwarted by optional affiliation of domestic state-chartered commercial banks with the Fed, let alone by optional affiliation of foreign banks. Nor has there been any showing that our national policy objectives have been adversely affected simply because of the pattern of state regulation of foreign banks in this country. CSBS does not believe there is any validity to the claim that domestic commercial banks are placed at a significant competitive disadvantage because of the ability of foreign banks to engage in interstate activity through their branches and agencies. In fact, the interstate banking activities of domestic banks are far greater than those of foreign branches or agencies. Furthermore, there is no significant disadvantage of our domestic banks because of the fact that a relatively few foreign branches have securities affiliates in this country, an activity prohibited to our domestic banks under the Glass-Steagall Act. That Act is now under review and no federal legislation relating to foreign banks should be enacted until a thorough review has been made relative to the appropriateness of the various provisions of that Act to domestic banks at the present time.

Thank you Mr. Chairman.

Exhibit #1

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE

(SEPTEMBER, 1975)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Algemene Bank Nederland	NY Ill.	Cal.		Banque Nationale de Paris	Ill.	Cal.	Cal.-French Bank of Cal. (1) NY-Investment Co.-French American Banking Corporation
Banca Commerciale Italiana	NY Ill.	Cal.		Barclay's Group	NY(2) Ill. MA,VI	Cal.	NY-Barclays Bank of NY (24) Cal.-Barclays Bank of Cal. (37)
Banco di Roma	NY	Cal.	Ill.-Banco di Roma (Chicago)	Canadian Imperial Bank of Commerce	Ore. Wash.	NY Cal.	NY-Canadian Bank of Commerce Trust Company Cal.-California Canadian Bank (19)
Banco do Brasil	NY	Cal. (2)		Commerzbank	NY Ill.		
Banco Nacional de Mexico		NY Cal.		Compagnie Financiere de Suez	NY Ill.		
Banco Real	NY	Cal.		Credit Lyonnais	NY Ill.	Cal.	
Bank Leumi le-Israel	Ill.	NY	NY-Bank Leumi le-Israel	Dai-Ichi Kangyo Bank		NY Cal.	Ill.-First Pacific Bank of Chicago
Bank of Montreal		NY Cal.	NY-Bank of Montreal Trust Co. Cal.-Bank of Montreal (Calif.) (4)	Daiwa Bank		NY Cal.	
Bank of Nova Scotia	PR(3) VI(5)	NY Cal.	NY-Bank of Nova Scotia Trust Company of New York	Dresdner	NY Ill.	Cal.	
Bank of Tokyo	Ore. Wash.	NY Cal. (2)	NY-Bank of Tokyo Trust Co. (4) Cal.-Bank of Tokyo of Cal. (22)	European-American Group	Ill.	Cal. (2)	NY-European-Amer. Bank & Trust Co. (106), Investment Co-European-Amer. Banking Corp.

Note: This table was in the Appendix to the statement of Federal Reserve Board Vice Chairman George W Mitchell in his testimony before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, U. S House of Representatives, on December 12, 1975, regarding the FINE Study Discussion Principles.

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Fuji Bank		NY Cal.	NY-Fuji Bank and Trust Company	National Bank of Greece	Ill.		NY-Atlantic Bank of New York (2)
Hokkaido Takushoku Bank		NY Cal.		National Westminster Bank	NY Ill.	Cal.	
HongKong and Shanghai Banking Corporation	NY Ill. Wash.	Cal.	Cal.-HongKong Bank of Cal. (9)	Philippine National Bank	NY	Cal. Ha.	
Industrial Bank of Japan		NY Cal.	NY-Industrial Bank of Japan Trust Company	Royal Bank of Canada	PR(5) VI	NY Cal.	NY-Royal Bank of Canada Trust Co.
International Commercial Bank of China	Ill.	NY		Saitama Bank		NY Cal.	
Korea Exchange Bank	Ill.	NY Cal.	Cal.-Korea Exchange Bank of California	Sanwa Bank	Ill.	NY Cal.	Cal.-Sanwa Bank of California (4)
Kyowa Bank		NY Cal.		Standard and Chartered Banking Group Limited	Ill. NY(2) Wash.	NY Cal.	Cal.-Chartered Bank of London (14)
Lloyds Bank Limited	NY Ill.		Cal.-Lloyds Bank California (94)	Sumitomo Bank	Ill.	NY Cal.	Cal.-Sumitomo Bank of California (19)
Mitsubishi Bank		NY Cal.	Cal.-Mitsubishi Bank of California (3)	Swiss Bank Corporation	NY(2) Ill.	Cal.	
Mitsui Bank		NY Cal.	Cal.-Mitsui Bank of Calif.	Swiss Credit Bank	NY	Cal.	

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Taiyo Kobe Bank	Wash.	NY Cal.					
Tokai Bank		NY Cal.	Cal.-Tokai Bank of California				
Toronto Dominion Bank		NY Cal.	NY-Toronto Dominion Bank Trust Co.; Cal.-Toronto Dominion Bank of California (2)				
Union Bank of Bavaria	NY Ill.						

Exhibit #2

BANK HOLDING COMPANIES SURVEYED IN AMERICAN BANKER ARTICLES

Name	Number of Nonbank Offices	Number of States
BankAmerica Corp.	336	32
Citicorp	284	34[1]
Manufacturers Hanover Corp.	151	16
Chemical New York Corp.	121	15
First Chicago Corp.	26	9[1]
Security Pacific Corp.	45	13
First National Boston Corp.	33	11
First Pennsylvania Corp.	263	25[1]
North Carolina National Bank Corp.	122	7
Citizens and Southern National Bank	40	9
Pittsburgh National Corp.	35	15
Philadelphia National Corp.	94	15

[1] Also has nonbank subsidiary offices in the District of Columbia.

OPTIONAL AFFILIATION WITH THE

IS CONSISTENT WITH EFFECTIVE MONETARY POLICIES

Professor
Ross M. Robertson

Professor
Almarin Phillips

CONFERENCE OF STATE BANK SUPERVISOR

CONFERENCE OF STATE BANK SUPERVISORS

PREFACE

The Conference of State Bank Supervisors appreciates the scholarly work of Professors Almarin Phillips and Ross M. Robertson on this position paper. In it they analyze the question of the relationship between optional affiliation of some banks with the Federal Reserve System for reserve purposes and the effectiveness of monetary policy.

Dr. Phillips is Professor of Economics and Law, University of Pennsylvania, and Dr. Robertson is Professor of Business Economics and Public Policy, and Director of Business History Studies, School of Business, Indiana University.

Dr. Phillips was Professional Staff Co-Director of the President's Commission on Financial Structure and Regulation (Hunt Commission), and Dr. Robertson is widely recognized as one of the nation's foremost authorities on the history of monetary policy. Professors Phillips and Robertson have had extensive experience outside academia and government, as well as within, in responsibilities sensitive to the impact of monetary policy on the economy and attuned to the mechanics of monetary policy's impact on the economy.

For purposes of this paper, the authors imposed only two major constraints. The first was a time-horizon constraint. They refrained from the interesting but highly speculative exercise of assuming knowledge of what the financial world would be like beyond, say, ten years hence. The second was a socio-economic-political constraint. The paper assumes that the majority of Americans prefer a relatively free economy—one in which financial and physical resources generally are allocated as determined by millions of people expressing themselves through the marketplace and not as determined by a few people in a centralized federal government agency.

Based on their analyses of the historical evolution of the role of bank reserves plus more contemporary evidence on the manner in which monetary policy affects the economy, the authors conclude:

1. A large number of variables affect the level and rate of change of the money supply, even though some variables may weigh more heavily than others.
2. The interrelationships among variables are complex and uncertain. Attempts at precision assume knowledge of major variables that does not exist and cannot reasonably be expected to exist in the foreseeable future.

3. Major monetary policy weaknesses have been revealed in the recent past, and a prudent person should anticipate more in the future. Optional affiliation of some banks with the Federal Reserve for reserve purposes, however, cannot be considered high on the list of factors contributing to these weaknesses, if eligible at all for inclusion.
4. Compulsory affiliation of additional banks with the Federal Reserve for reserve purposes would further increase the power that the Federal Reserve has over banks and would force the dilution of state and local determination of the structure.
5. Foregoing the known merits of the dual banking system with its healthy state-federal checks and balances for uncertain benefits, if any, from compulsory affiliation of all banks with the Federal Reserve for reserve purposes would not be in the public interest.

(s) Donald E. Pearson

Donald E. Pearson
President
Conference of State Bank Supervisors

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OPTIONAL AFFILIATION WITH THE FRB FOR RESERVE PURPOSES IS CONSISTENT WITH EFFECTIVE MONETARY POLICIES

For more than two decades a series of congressional committees and official and unofficial commissions have examined the financial structure of the United States with a view to correcting its alleged deficiencies. More recently the discontent of public officials and private citizens has focused on the disruption of U.S. financial markets, and particularly the market for urban residential mortgages, resulting from periods of monetary restraint. Early in his tenure in office President Nixon appointed a Presidential Commission on Financial Structure and Regulation (the Hunt Commission), and many of the proposals of that commission were transmitted by the Department of the Treasury to Congress on August 3, 1973, as "Recommendations for Change in the U.S. Financial System" with the urging that reform proposals be considered as a package rather than piecemeal.[1]

Meantime, Federal Reserve officials, beginning in the spring of 1973 with an official policy statement by Chairman Arthur F. Burns, have pressed for a specific change in the financial structure that presages a divisive argument. The proposal is that all insured nonmember banks be subject to reserve requirements of the Federal Reserve Board. A bill introduced by Representative Henry F. Reuss (D.-Wis.) in September 1973 would require that the nearly 8,000 federally insured banks now subject to state reserve requirements be brought into the Federal Reserve System for purposes of defining and holding reserves against deposit liabilities. The disclaimer that the presently insured nonmember banks would not have to become "members" of the Federal Reserve System was scornfully received by the managers of state nonmember banks, to whom the reserve requirements of Federal Reserve are the very essence of System membership.

The proposal that all commercial banks keep reserves with Federal Reserve is actually as old as the System itself, but after the original act specified compulsory membership only for national banks the question was not raised again until 1933. Legislation establishing the Federal Deposit Insurance Corporation originally required Federal Reserve membership as a condition of admittance to insurance, but the requirement was post-

[1] The revision of this publication published September 24, 1973, did not change the recommendation to avoid piecemeal legislation. It did, however, reflect Federal Reserve annoyance with Treasury's original stand against uniform reserve requirements for all banks.

poned and finally dropped in 1939. On various occasions since the early 1950s Federal Reserve officials have made a half-hearted case for a uniform set of reserve requirements, but one sensed that they were not really in earnest, because, among other reasons, the political turmoil generated by nonmember banks would make a serious coercive effort not worth the candle.

In the 1970s, however, Federal Reserve leadership apparently means business, whatever the political costs. In his April 1973 address to the Governing Council of the American Bankers Association Chairman Burns argued that reserve reform was necessary to ensure "adequate control over the supply of money and credit in the years to come" and to establish an "equitable sharing" of the costs of monetary control. In the press release accompanying the introduction of his bill Congressman Ruess of the House Banking Committee remarked that the bill ". . . provides a missing link in connecting the supply of bank reserves and the supply of money." Moreover, the bill ". . . will permit the Federal Reserve to exercise better control over the money supply, and contribute thereby to our achieving more stable economic and financial conditions."

Combined, these statements seem to assert that in the absence of a uniform set of reserve requirements a part of the commercial banking system somehow largely or entirely escapes central bank control. The further implication is that if all banks were required to keep reserves with Federal Reserve, rather than allowing nonmember banks to keep reserves substantially as deposits with large commercial banks, the management of monetary processes by the central bank would be greatly simplified. Why? Because the predictability of money-supply changes would allegedly be greatly improved. Finally, the contention seems to be that if Federal Reserve could improve its hitherto capricious control of the rate of change of the money stock by bringing all commercial banks into the System the war against economic slumps on the one hand and inflation on the other would be sooner won.

In sum, Federal Reserve authorities argue that if all banks were required to keep reserves according to their mandates "the precision and the certainty" with which monetary policy is executed would be increased. It will be argued below that any improvement in control of the rate of change of the money supply through such a change in institutional arrangements would be trivial. Indeed, the central bank could probably achieve nicer control within the limits imposed by the present state of monetary theory by reversing some of its own recent changes in reserve rules. Federal Reserve authorities have found it preferable to base the argument for universal control of reserves on ostensibly technical reasons while barely mentioning the real reasons. The real reasons for Fed moves at this time are twofold: (1) a growing concern over a slow and small, but

nevertheless steady, decline in System membership and in the proportion of commercial bank assets owned by member banks, and (2) the increasing likelihood that a large number of the hitherto nonbank financial intermediaries—particularly savings and loan associations, mutual savings banks, and credits unions—will one day be given powers to create liabilities that will make them part of the payments mechanism. Sophisticated observers have long noted that, except for the large money-market banks, membership in the Federal Reserve System is largely a matter of indifference for effecting monetary policy. Federal Reserve prefers absolute authority to an authority subject to the political checks and balances guaranteed by sharing power with other federal agencies and with state jurisdictions.

Thus, top Federal Reserve officials, choosing not to attack the integrity of the dual banking system headon, have tried to achieve the same objective by seeking legislation that would impose their own reserve requirements on all banks. Although unsupported by empirical evidencce, the argument that the precision of monetary controls would thereby be improved has a certain plausibility to those unacquainted with the intricacies of the process of money creation and with the number of variables that must be accurately predicted to assure adequate control of the money supply. The existence of different reserve requirements for member and nonmember banks does not complicate the problem of monetary controls to any significant degree; Federal Reserve could make far more important changes for more precise control of the money stock by altering its own reserve rules for member banks.

1.

Reserve arrangements for U.S. commercial banks are hereditary, plainly bearing the marks of a banking system forged in the nineteenth century. By 1860 several state laws required banks to keep reserves against both their note and deposit liabilities. In strict practice reserves were kept as gold and silver in bank vaults, but as time went on the custom developed of keeping deposits, known as correspondent accounts, with banks in other cities.[2] The Currency Act of 1863 and the National Bank Act of 1864, which substantially amended the 1863 legislation, recognized prevailing practice by permitting the new national associations to keep their reserves in two forms—as cash in vault or as deposits with a national bank in one of 17 "redemption" cities. Banks located in New York (later

[2] If a bank in St. Louis knew that a substantial volume of checks drawn by depositors would be made payable to Chicago firms, it kept funds on deposit with a Chicago bank to meet these foreseeable obligations. In case of emergency these deposits would serve as well as cash in vault, for they could be used to meet obligations of the bank in Chicago or be transferred for use at home.

called a "central reserve" city) were exceptions in that they had to keep *all* their reserves as cash in vault.[3] Banks in the 16 other redemption cities (later redesignated "reserve" cities) had to keep half their reserves as cash in vault but might keep the other half as deposits with national banks in New York. Banks in all other cities and towns (country banks) had to keep two-fifths of their reserves as cash in vault but might deposit the remaining three-fifths in a national bank in a redemption city. In whatever form they were maintained, reserves were set at 25 per cent for banks in redemption cities and at 15 per cent for country banks.

Reserves were originally to be calculated as a percentage of deposits plus notes outstanding. After 1874 national banks were no longer required to keep reserves against *notes* but were to keep on deposit with the U.S. Treasury a 5 per cent redemption fund that could also be counted as part of reserves against deposits. Henceforth national banks calculated their minimum legal reserves only as a percentage of deposits.

On March 3, 1887, Congress amended the National Bank Act to permit cities of 50,000 or more to become reserve cities upon the application of three-fourths of their national banks; cities of 200,000 or more could become central reserve cities under the same condition.[4] The amendment made no change in the basic reserve structure against deposit liabilities. Country banks still had to keep a reserve of 15 per cent, three-fifths of which might be deposits with national banks in reserve or central reserve cities. Reserve city banks were still required to keep a reserve of 25 per cent against deposits, one-half of which might be balances with banks in central reserve cities. Banks in central reserve cities had no choice but to keep a 25 per cent cash reserve against deposit liabilities. Thus, banks electing to become central reserve city banks could no longer count balances with New York as a part of their reserves. Within a few days banks in St. Louis and Chicago applied for central reserve city status, and the Comptroller of the Currency shortly approved the applications.[5] Except for relatively minor changes, such as a ruling of the Comptroller that national banks in computing deposits subject to reserve might deduct amounts due from banks from amounts due to banks, and a 1908 statute exempting U.S. government deposits from reserve requirements, these basic rules remained in effect until passage of the Federal Reserve Act.

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[3] Cash was to be held in the form of "lawful money." In 1864 "lawful money" meant gold, silver, and greenbacks.

[4] The designation "central reserve city" and "reserve city" appeared for the first time in this legislation; the term "country bank" was not used in the 1887 law but by that time had become customary.

[5] St. Louis maintained its central reserve city status until July 1, 1922. New York and Chicago remained central reserve cities until the classification was abolished effective July 28, 1962.

Although the reserve provisions of the Federal Reserve Act were based on principles established by the National Bank Act, some changes were made that later proved significant. For one thing, reserves of banks in the national banking system were viewed as serving a definite liquidity function. Banks were encouraged to use their reserves fully to meet deposit withdrawals, and the only penalty for a deficit was a prohibition against making new loans. As early as 1873 the Comptroller of the Currency held that minimum reserves specified by law were not intended to insure partial payment to a bank's creditors but were only to deter an individual bank from expansion of its liabilities. Should the reserves of a national bank fall below minimum requirements, the Comptroller *might* notify the bank of its deficiency, and if the deficiency were not made good within 30 days the Comptroller *might*, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up its business. Thus, the law did not *require* the Comptroller to take action against a bank with reserves below the legal ratio. Moreover, before the establishment of the Federal Reserve System the Comptroller could learn of deficits in a given bank's reserve position on only seven dates (five call dates and two examination dates) a year. More important, in times of monetary stringency Comptrollers allowed banks to let their reserves fall well below legal minimums without taking punitive action. During the entire period 1864-1914 there is no instance in which the Comptroller required a solvent bank to make up a deficiency on threat of liquidation.

The Federal Reserve Act was not explicit on this point, but within a very few years after the inception of the System it became apparent that the concept of bank reserves was changing from one of providing liquidity to one of furnishing the fundamental basis of monetary control. As the Act was finally approved, member-bank reserve requirements against demand deposits were 18 per cent for central reserve city banks, 15 per cent for reserve city banks, and 12 per cent for country banks. The question of reserve requirements against time deposits was puzzling, for the National Bank Act had made no distinction between time and demand deposits. By 1913 the banking laws of most states either required no reserves against time and savings deposits or required a smaller reserve than against demand deposits. To enable member banks to compete with state banks for time deposits, the required reserve against such deposits was reduced to 5 per cent for all member banks.

The permanent reserve provisions of the Federal Reserve Act, to be effective three years after the organization of the System, required member banks to hold part of their reserves as deposits with Federal Reserve Banks of the districts in which they were located and part as vault cash,

with an optional remainder to be held either as cash or deposits with Federal Reserve. During this interim period reserve city and country member banks were permitted to carry part of their reserve balances with banks in central reserve and reserve cities. On November 16, 1914, the date set for beginning the operations of the Federal Reserve System, member banks deposited the first payment of their reserves. Federal Reserve authorities had requested that deposits be made in gold so far as possible in order that Reserve Banks might establish a gold reserve, and member banks complied. Subsequent transfers were made without difficulty, and the centralization of reserves was accomplished.

A heavy gold inflow to the United States that began early in 1915 prompted the Federal Reserve Board to request legislation amending the Federal Reserve Act so as to concentrate further the gold supply of the Reserve Banks. With the entry of the United States into the war and the likelihood of forthcoming deficit financing, there was a widespread opinion that gold reserves of the country should be further centralized, if for no other reason than to increase the potential lending power of the Reserve Banks.[6] By an amendment to the Federal Reserve Act approved June 21, 1917, Congress established new reserve requirements that were to prevail until the 1930s. In accordance with this amendment, legal reserves of member banks of the Federal Reserve System were to consist solely of deposits with Federal Reserve Banks. The old classification of central reserve city, reserve city, and country banks was kept, and reserves required against demand deposits were set at 13, 10, and 7 per cent respectively. Banks of all classes had to keep only a 3 per cent reserve against time deposits. Although total reserve percentages were much less than those prescribed in the original Act, such cash as a commercial bank needed to keep in its vaults to carry on day-to-day transactions did *not* count as legal reserve after June 1917. Because the minimum balances required to be held at Reserve Banks were substantially higher than under the original Act, member banks had to transfer reserve funds to the Reserve Banks. Once again, these deposits were largely in gold, as requested by the Federal Reserve Board.

The liberalization, on balance, of reserve requirements apparently improved the attractiveness of Federal Reserve membership to state-

[6] In 1913 the framers of the Federal Reserve Act, like everyone else who professed to know anything about money, believed firmly in the virtues of the gold standard. The Act required the Reserve Banks to keep gold reserves against their major liabilities; gold holdings were to be at least 40 per cent of the value of Federal Reserve notes outstanding and 35 per cent of member-bank deposits. Thus a gold constraint put an upper limit on the amount of Federal Reserve credit that could be created.

chartered banks.[7] As of June 30, 1914, there were 7,518 national banks, all of which had to enter the System or give up their national charters, and 17,498 state banks, which might opt for membership. Despite the great discrepancy in numbers, national banks in 1914 accounted for about one-half of assets and liabilities of commercial banks in the United States. Despite outraged threats of many national bankers to give up their charters rather than be coerced into membership, only a handful of national banks actually made the change to state charters. By the same token, after nearly three years of System operation only 53 state-chartered banks had chosen to become members of the Federal Reserve System. State-chartered banks were subject to as many different reserve requirements as there were state jurisdictions, but by this time state rules in general were conforming to the notion that cash in vault and balances due from correspondent banks should constitute bank reserves. At the inception of the Federal Reserve a number of state laws would not permit deposits of state banks with Federal Reserve to count as reserves satisfactory to state authorities. Accordingly, state laws were gradually modified to permit state member banks to keep reserves according to federal rules and to be subject to the supervision of the Federal Reserve Bank in the district in which they were located.

Almost as soon as the 7-10-13 per cent requirements for country, reserve city, and central reserve city banks were established, the Board began to seek authority to raise and lower these required ratios. But not until 1933 was permissive legislation forthcoming and then only for the duration of the economic emergency and with the permission of the President. The Banking Act of 1935 finally gave the Board of Governors permanent authority to raise and lower required reserve ratios. Henceforth, the long-standing ratios of 7, 10, and 13 per cent could be as much as doubled; that is, the percentages held by country banks could vary from 7 to 14, those for reserve city banks from 10 to 20, and those for central reserve city banks from 13 to 26.[8] Reserves against time deposits for all classes of banks could be set between 3 and 6 per cent. Rules regarding variance of reserve ratios established in 1935 have with one exception remained essentially the same to the present. In the late summer

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[7] Liberalization of reserve requirements was not the only 1917 statutory change aimed at enticing state banks to join the System. Exemption of state member banks from examination by the Comptroller of the Currency, easier provisions for withdrawal from the System, relief from the limitations on national banks regarding loans to a single borrower, less restrictive real estate lending powers for national banks, and patriotic exhortation were all effective in boosting Federal Reserve membership beginning in 1918.

[8] With the "golden avalanche" of the mid-1930s, brought on as Europeans sent their funds to safety, excess reserves grew steadily. Although the economy had by no means recovered from the Great Depression, Board officials were concerned about the threat of inflation. In late 1936 and early 1937 the Board raised reserve require-

of 1948 Congress granted the Board temporary power to raise reserve ratios even higher, and during ensuing months partial use was made of this authority, which expired on June 30, 1949.

In the period from mid-1949 to December 1959 the rules regarding reserve requirements of member banks remained unchanged, though there were minor changes in required percentages in this period.[9] Over a transitional period from December 1, 1959, to November 24, 1960, banks in all geographical classifications were allowed to count a part of vault cash as reserves; effective November 24, 1960, all member banks were allowed to count all vault cash as reserves. As noted above, in mid-1962 the central reserve city classification was dropped, and until mid-1966 there were only three such categories—a percentage reserve requirement against net demand deposits of reserve city and country banks and a percentage reserve requirement against time deposits for both reserve city and country banks. Effective on two July dates in 1966 the Board began a series of changes in regulation D that increasingly "splintered" the reserve requirements of member banks. For example, in the first 1966 change, reserves on savings deposits for both geographical categories were listed at 4 per cent; on other time deposits up to $5 million they remained at 4 per cent, but on other time deposits in excess of $5 million they were raised to 5 per cent. Effective in September 1966 the 5 per cent figure was raised to 6 per cent.[10] In January of 1968 the number of categories for reserve requirement purposes was raised to 7 when the reserve percentage figure for net demand deposits of reserve city banks was set at 16½ per cent for deposits under $5 million and 17 per cent for deposits over $5 million, and reserve percentages for country banks were set at 12 per cent for demand deposits under $5 million and 12½ per cent for demand deposits over $5 million.

In 1969 the number of categories was raised to 9, and by the end of 1970 the number stood at 11. Briefly, effective July 31, 1969, an amendment to Regulation D restated the definition of gross demand deposits to include outstanding checks or drafts arising out of Eurodollar transactions. Effective July 25, 1969, the Board of Governors changed Regulations D and Q so that attempts by banks to secure nondeposit funds through sale of loans to affiliates and to nonbank investors under repur-

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ments by the full 100 per cent allowed by law. Unlike more recent changes in reserve requirements, the 1936-37 increase was not highly buffered by offsetting Federal Open Market Committee transactions. There was an ensuing drop in the money supply and in loans and investments of commercial banks, and the consequence was the nasty "recession" of 1937-38.

[9] *Federal Reserve Bulletin*, August, 1966, p. 1184.

[10] *Federal Reserve Bulletin*, September, 1966, p. 1329.

chase agreements would be subject to reserve requirements. Effective October 16, 1969, member banks with one or more foreign branches were required to maintain reserves against their foreign branch deposits. Finally, effective October 1, 1970, the Board imposed a 5 per cent reserve requirement on funds obtained by member banks from the issuance of commercial paper by their affiliates.[11]

It is tedious and unnecessary to trace recent changes in further detail. More significant than any single change in the previous decade was the decision of the Board, announced on June 20, 1972, to restructure reserve requirements of member banks so as to make required reserves a function of bank size rather than of geographical location. Although the distinction between country and reserve city banks was not formally rescinded, it no longer has any meaning so far as reserve percentages are concerned.[12] As originally announced, to become effective in two steps in late September and early October 1972, the ratios established for the various portions of a bank's net demand deposits were as follows:

Amount of net demand deposits (in millions of dollars)	*Reserve percentage applicable*
2 or less	8
2-10	10
10-100	12
100-400	13
Over 400	17½

Because of litigation over proposed changes in Regulation J that accompanied changes in Regulation D, the restructuring of reserves did not take place until November 1972 but was accomplished in two steps as previously scheduled. As of June 30, 1973, the reserve percentages as shown above were still in effect.

[11] Recent changes have complicated these special reserve requirements even further. For example, effective June 21, 1973, member banks were made subject to an 8 per cent *marginal* reserve against increases in the aggregate of outstanding single-maturity time deposits of $100,000 and over above a specified base. Effective October 4, 1973, marginal reserve requirements against these liabilities were increased from 8 to 11 per cent, and effective December 13, 1973, they were reduced to 8 per cent again. Interested readers may inform themselves of such shifts in requirements by referring to the table "Reserve Requirements of Deposits of Member Banks" that appears in each issue of the *Federal Reserve Bulletin* and to further sources cited in the table footnotes. See, for example, *Federal Reserve Bulletin,* July, 1973, p. A9. See also Appendix One of this paper.

[12] Effective November 9, 1972, any bank having net demand deposits of more than $400 million would be considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank in a city constitutes designation of that city as a reserve city. In addition, cities in which Federal Reserve Banks or their branches are located are also reserve cities. Banks having net demand deposits of $400 million or less are considered to have the business of a bank outside a reserve city.

One further complicating change in the method of computing member bank reserves needs to be considered. In September 1968 lagged reserve requirements were introduced whereby member banks' required reserves are computed on the basis of deposit levels two weeks earlier. At the same time all member banks were placed on a one-week settlement period, the "statement week," that runs from Thursday through Wednesday. Deposits are measured at the close of each business day, and because a seven-day week is used, Friday's deposits count also for Saturday and Sunday if a bank is closed for business on weekends. The basic rules for reserve computation are as follows:

1. The required reserve balance of a bank is based upon the average daily net deposit balance held by the member bank at the close of each business day during the *second* computation period prior to the settlement week for which the computation is made. (For example, member bank required reserves for the statement week ending October 17, 1973, were computed on deposits subject to reserve requirements held by these banks during the statement week ending October 3, 1973.)
2. The reserve balance of a bank consists of the average daily balance with the Federal Reserve Banks held by the member bank at the close of each business day during the computation period for which the computation is made and the average daily currency and coin held by the member bank at the close of business each day during the second computation period prior to the computation period for which the computation is made.
3. Any excess or deficiency in a member bank's required reserve balance is carried forward to the next following computation period to the extent of 2 per cent of such required reserves, except that any portion of such excess or deficiency not offset in the next period may not be carried forward to additional computation periods.

Penalties for reserve deficiencies are assessed monthly under present rules, and the penalty is assessed at a rate of 2 per cent per annum above the discount rate. But commercial bankers do not like to show reserve deficiencies on their statements and will strive at considerable cost to adjust reserves to avoid penalties.

2.

The preceding sketch of the evolving role of reserves in American banking (plus a reading of post-1960 changes in reserve requirement rules as shown in Appendix I) suggests the number and complexity of the variables that affect the size and rate of change of the money supply. The problem is to simplify and categorize these variables so that intelligent noneconomists, interested in public policy questions, can make sense of them.

The best way to get at the task at hand is to depict a brief schema of monetary processes, laying out in bare outline the way by which Federal

Reserve controls the stock of money. The interested reader can then answer for himself the question at issue: does it make any real difference from the monetary policy standpoint whether all banks are required to keep reserves according to Federal Reserve mandates?

The quantity of money in a modern economy depends fundamentally upon the amount of reserves available to the banking system. At any point in time the volume of reserves is a function of transactions in the private and governmental sectors that may, under present rules of the game, be counterbalanced by the central bank. The counterbalancing action of the central bank is primarily through the injection or absorption of central-bank credit. In the United States, the injection or absorption of credit is through Federal Reserve action.

(1) Federal Reserve may lend to member banks via the discount window. Under the original Act it was presumed that Reserve Bank credit would be extended by rediscounting the assets of member banks that took the form of "eligible paper"—that is, promissory notes or bills of exchange of short maturities created as the result of an agricultural, industrial, or commercial transaction. In 1916, an amendment was passed enabling a member bank to get an out-and-out loan from its Federal Reserve Bank at the prevailing rediscount rate. Such a loan, called an "advance," could be obtained on the basis of the member bank's own note *secured* by eligible paper or by government obligations. When Federal Reserve authorities felt that an expansion of bank loans was desirable, the Reserve Banks would set the rediscount rate at a level that was low relative to prevailing interest rates. When bank credit was expanding at a rate that threatened inflation, the rediscount rate would presumably be raised to a high level relative to market rates of interest. In any case, the rediscount rate, in the tradition of European central banking, was assumed to be in close touch with market rates and would presumably be used in such a way as to encourage or discourage borrowing from Federal Reserve acting as a true lender of last resort.

The discount rate (as it is called nowadays rather than rediscount rate) never became a significant tool of monetary control in American practice. The most important single reason for the impotence of the discount rate has been the insistence of the Board of Governors on control of Reserve Bank discount windows through Regulation A, a complex set of rules that guarantees the regulation of member-bank borrowing by *administrative fiat* instead of through changes in the discount rate. Federal Reserve credit is still injected and absorbed through the discount window; but the magnitudes involved are relatively small, and the traditional central bank use of the discount rate as a control instrument has gone by the board.

(2) By all odds the most important instrument of monetary control in the United States is open market operations. Acting on the general

direction of the Federal Open Market Committee, the trading desk of the Federal Reserve Bank of New York (under the supervision of a Vice President of that Bank and a few other System experts) buys and sells government securities for System account—*i.e.*, for all twelve Reserve Banks.[13] The consequences of open market purchases and sales are immediate; a purchase injects bank reserves and a sale absorbs bank reserves. Specifically, when the Federal Reserve Bank of New York *buys* a million dollars worth of treasury bills, the appropriate functionary exchanges an officer's check for the securities, which are always purchased from a dealer in U.S. government securities. The dealer firm deposits the check in its commercial bank account, and the receiving bank sends the check to Federal Reserve, which recognizes the validity of its own item and credits the reserve account of the depositing bank. Demand deposits and reserves (member bank deposits with Federal Reserve) thus rise by the same amount—$1 million.[14] Conversely, when the New York Fed *sells* a million dollars worth of treasury bills, Federal Reserve receives a dealer's check in exchange for the securities. Federal Reserve then sends the item to the commercial bank on which it was drawn; the commercial bank charges the account of the dealer and authorizes a reduction of its own reserve account. Demand deposits and reserves fall by the same amount—$1 million.

There is nothing "theoretical" about the effects of open market operations; they are demonstrable and can be seen with the naked eye. Moreover, Federal Reserve carries out open-market purchases and sales in massive amounts, entering the market on a day-to-day and even an hour-to-hour basis. And the magnitudes are enormous. For the 12 months ending June 30, 1973, purchases and sales of U.S. government securities grossed approximately $190 billion. Outright transactions amounted to nearly $90 billion, and purchases and sales on account of repurchase agreements were well over $100 billion.[15] For all practical purposes

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13 There is no reason why open market operations should be transacted only in government securities. Indeed, the very first open market purchases were in municipal warrants of the City of New York, and it is more or less obvious that such operations could be carried out in other debt instruments, common stocks, commodities, or anything else. In fact, when Federal Reserve buys *anything* from paper clips to computers, it injects a tiny amount of reserves into the banking system, for the only way the central bank can discharge any obligation is by writing a check on itself. In practice, Federal Reserve almost exclusively buys Treasury issues for open-market account, predominantly in the short end of the maturity range. Occasionally, small transactions will take place in federal agency issues and bankers' acceptances.

14 Several bond dealers are in fact money-market banks. If the securities were bought from a bank dealer, Federal Reserve would in effect credit the reserve account of the bank so that reserves, but not deposits, would increase by the amount of the purchase.

15 *Federal Reserve Bulletin*, August, 1973, p. A11.

open-market operations are the effective instrument for use in controlling the money supply.

(3) We have already observed that Federal Reserve can use changes in required reserve ratios as an instrument of monetary control. A change in a required reserve ratio does not affect the total amount of member bank reserves, but it does affect the amounts of *required* reserves and so of *excess* reserves in the System. In practice changes in required reserve ratios have been infrequent; all the major changes since 1935 can be put in one table that could be printed on a single page of the *Federal Reserve Bulletin*. Federal Reserve authorities have consistently characterized this instrument of control as "inflexible," and when reserve ratio changes are made, there is frequently an offsetting or partly offsetting open-market operation. More recent uses of the application of reserve requirements against specific types of bank liabilties are questionable at best and serve only to complicate the monetary process that Federal Reserve says it wishes to make simpler and more predictable.

The ultimate objective of the central bank is to affect the level of income in the economy and the rate of change of income over time, the appropriate levels and rates of change to be determined by reference to such indicators as the rate of unemployment and the rate of change of prices. To accomplish this objective, Federal Reserve must choose *some* reserve measure—reserves against private deposits, total reserves, unborrowed reserves, the monetary base, or some variant thereof—that can be related to whatever monetary aggregate—M_1, M_2, M_3, or bank credit—the monetary authorities wish to control.[16] The factor that relates the chosen reserve measure to the money stock must therefore be a *multiplier* of some sort.

There is substantial agreement that the reserve measure most useful for control purposes is the monetary base (base money), which is defined as the net monetary liabilities of the federal government (*i.e.*, the Federal Reserve and the U. S. Treasury). Base money, popularly and somewhat inaccurately referred to as "high powered money," consists of commercial bank reserves plus currency held by the nonbank public.[17] Growth of the

[16] M_1, the "narrow" definition of the money supply, is equal to net demand deposits of commercial banks plus foreign demand balances at Federal Reserve Banks plus currency outside banks. M_2, the "broad" definition of the money supply, is equal to M_1 plus time deposits of commercial banks *less* negotiable CDs of \$100,000 or over. M_3 is equal to M_2 plus deposits of mutual savings banks and share capital of savings and loan associations. For magnitudes involved see *Federal Reserve Bulletin*, August, 1973, p. A16.

[17] The discussion of base money and the monetary multiplier that follows is not intended to be pedagogically satisfying but should enable the general reader to comprehend the basic variables involved in the determination of the money supply. For a lucid, straightforward exposition of the key definitions and of the relationships

monetary base is essentially determined by Federal Reserve holdings of U. S. government securities, the major source component of the base. Although views differ on the precision with which the monetary base can be regulated, the consensus among monetary economists is that its size can be set within very close tolerances on a monthly basis.

The ratio of the narrowly defined money supply (demand deposits plus currency, or M_1) to the monetary base has in recent years varied within a narrow range of approximately 2.53 to 2.68. In recent months it has varied just above and below 2.6. In other words, over periods of a few years this ratio is stable and reasonably predictable. The existence of this stable ratio leads to the concept of a "money multiplier," which enables the monetary authorities to determine how much money will be generated by an addition to the monetary base of a dollar.

Upon what variables does the size of the monetary multiplier depend? Without going into the algebra of the relationships, we can say that the multiplier depends upon the following key ratios:

1. *The r-ratio.* The "r-ratio" is defined as a weighted-average reserve ratio against all deposits of commercial banks. It is computed by dividing total reserves by total deposits. In making this computation the monetary authorities must make estimates for nonmember banks on dates between benchmark call-date data presently available four times each year. Nevertheless, the "r-ratio" is the least volatile of all the ratios that determine the money multiplier.
2. *The k-ratio.* The "k-ratio" is defined as the ratio of currency outside banks to total demand deposits. If the nonbank public always held a fixed proportion of currency to demand deposits, this ratio would be constant. The fact is, however, that at certain times of the year and at certain points in the business cycle the public wishes to hold more or less of its assets as cash. If, with a given increase in the monetary base, the amount of currency the public desires to hold remains unchanged, the new base money remains in the banking system entirely to support an increase in deposits. Thus, the "currency drain" that accompanies an increase in the base must be estimated in determining the amount of base money that must be supplied to achieve a desired increase in the money stock.
3. *The t-ratio.* The "t-ratio" is defined as the proportion of time deposits to demand deposits of all commercial banks in the system. Although time deposits are not included in the narrow definition of the money supply, banks must keep reserves against them. As we have observed, the reserve requirements of member banks are much lower against time

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between the monetary base and the money multiplier see Jerry L. Jordan, *Review*, Federal Reserve Bank of St. Louis, October 1969, pp. 10-19, also available as Number 46 in the Reprint Series of that Bank. For a more extended, but still readable, exposition of these phenomena, see Albert E. Burger, *The Money Supply Process* (Belmont, California: Wadsworth Publishing Company, 1971). For an almost entirely nonmathematical treatment, see A. James Meigs, *Money Matters* (New York: Harper and Row, 1972), especially Chapter 9, pp. 157-171.

deposits than against demand deposits, and in general the different state jurisdictions require lower reserves against time deposits than against demand deposits. Because a given amount of reserves permits more time deposits to be supported than demand deposits, Federal Reserve officials must be able to estimate the public's desire to hold time deposits relative to demand deposits in order to determine how much the money supply will change following a change in base money. In some respects the variables affecting the "t-ratio" are more complex than those affecting either the "r-ratio" or the "k-ratio." For the growth of time deposits depends not only on competition among banks and the nonbank intermediaries for household and business savings but also on the legal ceilings on rates payable by these institutions as imposed by Federal Reserve, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

4. *The g-ratio.* The "g-ratio" is defined as the proportion of U.S. government deposits in commercial banks to the total of private demand deposits. None of the definitions of the money supply includes U.S. government deposits. Yet commercial banks are required to hold the same proportion of reserves against federal deposits in the Treasury tax and loan accounts as against private demand deposits. Thus, changes in the amount of U.S. government deposits in commercial banks affect the amount of private deposits the banking system can support with a given amount of base money. Fluctuations in the "g-ratio" are primarily the result of shifts in Treasury balances from the tax and loan accounts in commercial banks to the Treasury's checking accounts with Federal Reserve. Although changes in this ratio are predictable on the basis of information from the Treasury, the "g-ratio" is the most volatile of the four we have just considered. (See Chart 1.)

The foregoing relationships can be summed up as

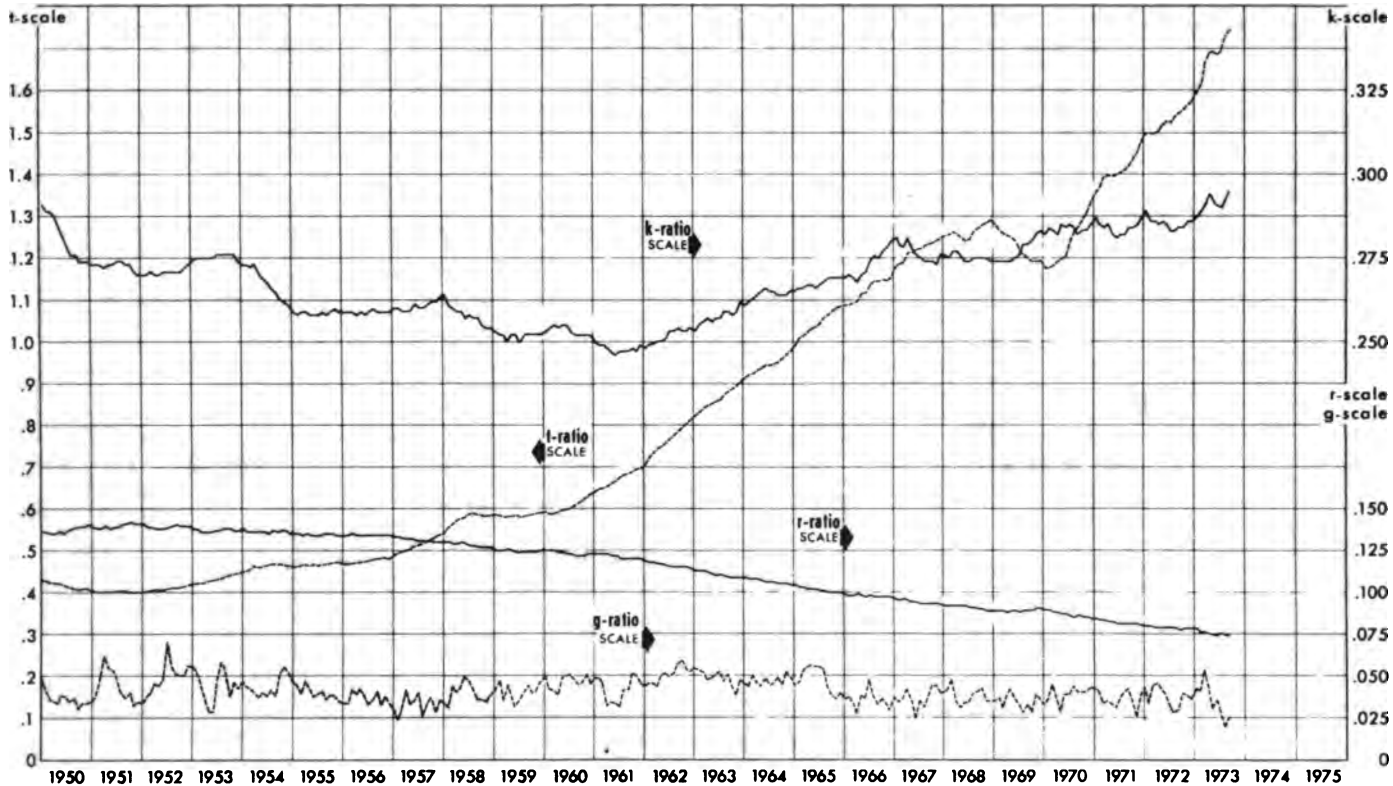
$$M_1 = m_1 B$$

where M_1 is the narrow definition of the money supply, B is the monetary base, and m_1 is the monetary multiplier. The monetary base, B, is on balance under the control of Federal Reserve through open market operations. To control the money supply it is the further task of Federal Reserve technicians to estimate the monetary multiplier for relevant periods of time by predicting the four ratios just described—the "r-ratio," the "k-ratio," the "t-ratio," and the "g-ratio." The "r-ratio" in turn depends upon the estimation of *seven* ratios. The equation for the monetary multiplier and the functional relationship between r and the ratios on which its values depend are further complicated by lagged reserve requirements.[18] The monetary multiplier, as plotted in Chart 2, is the following quotient:

$$m_1 = \frac{1 + k}{r(1 + t + g) + k}$$

[18] See Jerry L. Jordan, *op. cit.*, pp. 15-16.

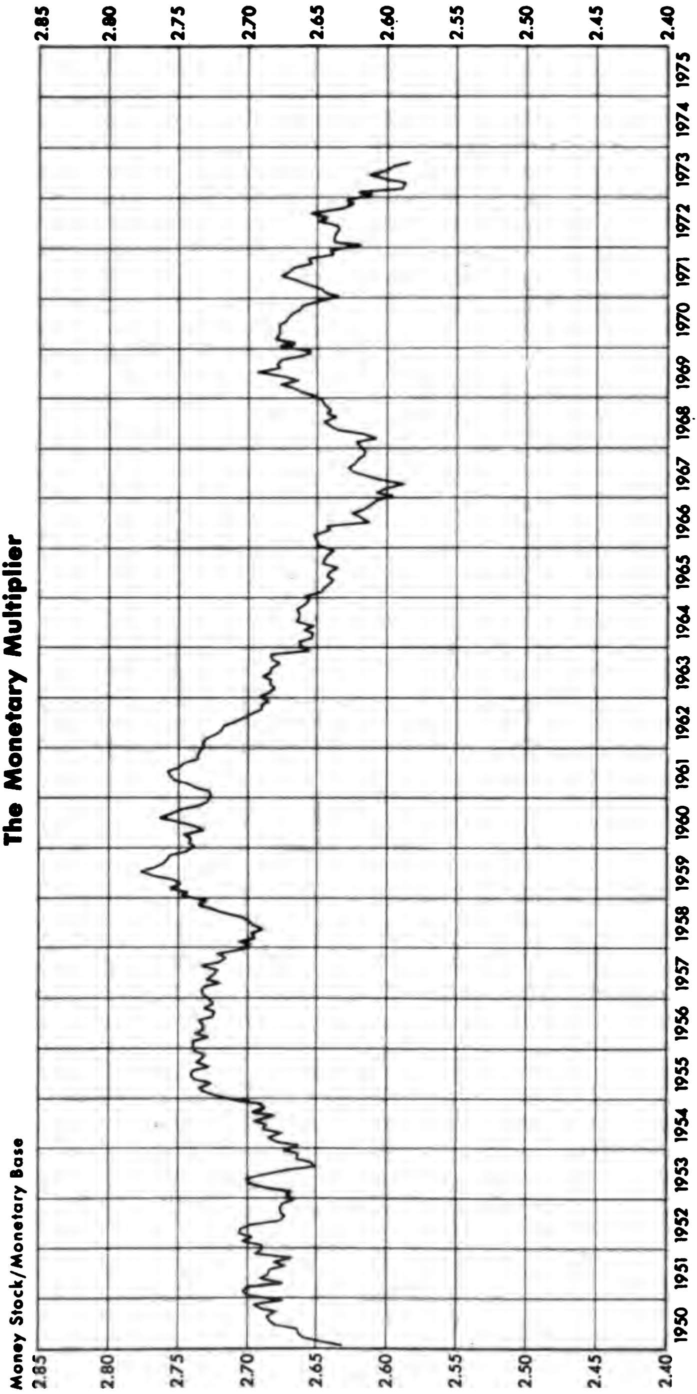
Chart 1
Monetary Multiplier Ratios



Prepared by Federal Reserve Bank of St Louis

Chart 2

The Monetary Multiplier



Prepared by Federal Reserve Bank of St. Louis

In comparison with the relative stability and small downward trend in the "r-ratio," the "t-ratio" shows pronounced short-term variability and a strong upward trend. This reflects three phenomena. One is short-term movements of funds within commercial banks between demand deposits, on the one hand, and time and savings deposits, on the other. These shifts depend in large measure on money market conditions. A second is the volatile shift of funds between time deposits and money market instruments; *e.g.*, extreme disintermediation from commercial bank time deposits initiated in December 1968 and continuing through much of 1969. The third is the higher rate of long-term growth in bank time and savings deposits relative to demand deposits. This higher rate of growth has occurred as business demand deposits have declined relative to total deposits over recent years. The instability of the "t-ratio" makes control of M_1 by Federal Reserve far more uncertain than do variations in the "r-ratio." It is not easy to predict the distribution of changes in base money between M_1 and M_2, the latter a broader definition of the money supply.

None of the ratios in Chart 1 reflects shifts in funds between commercial banks and the thrift institutions, but these shifts have also been pronounced on several recent occasions. Thus, uncertainty with respect to the distribution of changes in base money between M_1 and M_2—or commercial bank deposits—and M_3—which includes thrift institution deposits—is also a factor in the precision of effecting monetary policy. Indeed, the intra-commercial bank shifts between demand and time/saving accounts and the shifts between commercial bank and thrift institution deposits far overshadow any problems reflected in the variability of the "r-ratio." Yet it is the latter on which Federal Reserve is focusing attention.

By now it should be apparent that the number of variables affecting the money supply process is so large that the question of whether nonmember banks do or do not hold reserves with Federal Reserve is really insignificant. If Federal Reserve officials feel strongly on this point, we should expect to have an official study supporting the proposition that present institutional arrangements, allowing banks with approximately 20 per cent of total demand deposits to remain outside the System, seriously affect the predictability of Federal Reserve policy actions. Apparently no such study exists; if it does exist, the results have certainly not been published.[19]

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[19] In 1968 Governor Andrew F. Brimmer presented a paper before the 67th Annual Convention of the National Association of Supervisors of State Banks entitled "The Rationalization of Commercial Bank Reserve Requirements." However, this paper was simply a study of the likely effect of proposed reserve changes on the distribution of reserves between nonmember banks on the one hand and member banks on the other. In the last paragraph of this paper Governor Brimmer remarked that the

The question of changing institutional arrangements so as to make the money multiplier more stable and more predictable has been the subject of recent academic inquiry. For example, Albert E. Burger concluded after empirical investigation that "Increased splintering of reserve requirements and the introduction of lagged reserve requirements both have tended to introduce greater variability in the reserve ratio, therefore making it more difficult for the Federal Reserve to predict the results of any policy action."[20] George J. Benston concluded that shifts of deposits between member and nonmember banks may be a source of instability in total demand deposits, but his chief concern was that the amount of demand deposits at nonmember banks is available only on June and December call dates with consequent uncertainty of estimating these amounts in interim periods. In any case, Benston rejected the proposition that nonmember banks as a group are not subject to Federal Reserve control.[21] In a comprehensive review of institutional arrangements likely to reduce the accuracy of monetary control, William Poole and Charles Lieberman offered a "reform shopping list" suggesting nine changes that would improve monetary control. One of these nine changes would require all nonmember banks to adhere to Federal Reserve requirements, but the principal concern again seemed to be that such a requirement would simply provide Federal Reserve with better short-term money supply data.[22] The other eight items on the reform shopping list were as follows:

1. Eliminate reserve requirements against Treasury deposits in commercial banks.
2. If M_1 is accepted without qualification as the definition of money for policy purposes, eliminate reserve requirements on time and savings deposits.
3. Abandon lagged reserve requirements in favor of contemporaneous reserve requirements.
4. Amend regulations and invest in additional data processing equipment to reduce Federal Reserve float to the greatest extent possible.
5. Change the treatment of vault cash in the reserve requirements so that only a percentage, equaling the marginal reserve requirement on demand deposits for each bank, is allowed as reserves.
6. Set the discount rate so that it is always above money market rates of interest, and end administrative control over member bank borrowing.

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adoption of a system of universally applicable reserve requirements "would greatly strengthen the control of the monetary base by the central banks," but this statement was not supported adequately by empirical evidence.

20 A. E. Burger, *op. cit.*, p. 57.

21 George J. Benston, "An Analysis and Evaluation of Alternative Reserve Requirement Plans," *The Journal of Finance*, Vol. XXIV, No. 5 (December 1969), pp. 858-860.

22 William Poole and Charles Lieberman, "Improving Monetary Control," *Brookings Paper on Economic Activity*, 2:1972, pp. 293-335.

7. Require all nonmember banks to furnish deposit and vault cash data to the Federal Reserve more frequently.
8. Determine seasonal factors for the money stock as an expression of the seasonal aspects of monetary policy rather than by standard seasonal adjustment techniques. Since these seasonal factors would define seasonal monetary policy they would not be subject to later revision.

The effects of lagged reserve requirements have been in the direction of increasing the variability of reserve adjustment pressure on individual banks and of inducing greater variability in aggregate reserve adjustment pressure.[23] The basic reason is that, whereas under coincident reserve requirements required reserves increase simultaneously with increases in bank liabilities, under lagged reserve requirements there is no effect on required reserves during a period in which banks are acquiring assets and expanding bank liabilities. Thus, two weeks later individual banks may find themselves under severe pressure to make reserve adjustment, and Federal Reserve may have no choice but to accommodate hard-pressed banks via the discount window. In the course of his book-length treatment of the problems of accurately regulating the money supply, Meigs does not mention uniform reserve requirements for all banks as a necessary reform, but does pay particular attention to the "epic absurdities" of lagged reserve requirements.[24]

3.

It is always difficult to come to grips with an intellectual adversary who maintains his side of the argument by issuing dicta, providing no detailed evidence for *ex cathedra* statements.[25] Until Federal Reserve provides a research study that adequately supports its basic contentions, reasonable men can only conclude that there is not a solid case to be made for dismantling the dual banking system and replacing it with a single federal system.

Federal Reserve arguments that all insured commercial banks should be required by federal statute to keep reserves with Federal Reserve Banks can be listed briefly and the rejoinder to them summarized succinctly.

1. Unless all banks keep reserves with Federal Reserve, banks holding about 22 per cent of total commercial bank deposits escape central bank control.

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23 See R. Alton Gilbert, "The Effects of Lagged Reserve Requirements on the Reserve Adjustment Pressure on Banks," *Financial Analysts Journal*, September-October, 1973, pp. 1-10.

24 A. J. Meigs, *op. cit.*, pp. 182-186.

25 It may be objected that detailed argument cannot be expected in a speech such as the April 1973 address of Chairman Burns referred to in the opening section of this paper. Yet the official legislative recommendation for uniform reserve requirements as contained in the 59th *Annual Report* of the Board of Governors of the Federal Reserve System (1972) is even less specific than the Burns' speech. See pp. 195-197 of the 1972 *Annual Report*.

This contention deludes those who are innocent of money matters and even a few who should know better. As has been observed, open market operations are for all practical purposes *the* instrument of monetary control. Like the rain from heaven that falls on us all regardless of our merits, open market operations affect member and nonmember banks alike. There is not one shred of evidence to the contrary. To be sure, the great money-market banks, for which the vast socialized services of the central bank are a prerequisite to profitable operation, are the first to be "splashed with cash" and the first from which reserves are absorbed. But as these banks adjust their assets in response to central-bank action, *all* commercial banks feel the deposit-creating or deposit-destroying tremors that run through the system.

Nonmember banks essentially keep their reserves with member banks. Thus nonmember banks are closely linked to the whole System, for *their* reserves deposited with member banks *are* subject to the reserve requirements of Federal Reserve. As Clark Warburton has remarked, "If nonmember banks as a group expand more rapidly than member banks, they will lose deposits and correspondent bank balances to member banks; and this will tend to keep the expansion of nonmember banks closely in line with that of member banks." [26]

In any event, any reasonable attempt to prove that nonmember banks escape central-bank control should first demonstrate that noninterest-bearing, noninvested, reserve-type assets of nonmember banks in the aggregate respond fundamentally differently to major monetary policy moves than do comparable assets of member banks.[27] Such has not been the case. For example, during various periods of monetary restraint of the decades of the 1950's and 1960's the reactions of member and nonmember banks were essentially the same—neither group reduced significantly beyond the long-run trend its ratio of noninvested, reserve-type assets to total deposits.

2. One of the instruments of monetary control is exercised when Federal Reserve changes required reserve ratios. The use of this instrument is made less effective partly because a proportion of total bank deposits is left untouched by such changes. But the "greater loss," according to one Federal Reserve official, arises because the Board is inhibited in its use of changes in reserve requirements, since increases in required reserves worsen the competitive disadvantage of member banks and threatens further attrition of membership. "This inhibition has been unfortunate, for there have been times when the prompt and pervasive impact of higher reserve requirements would have been the best way to signal that monetary policy is moving toward added restraint . . ."

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[26] Clark Warburton, "Nonmember Banks and the Effectiveness of Monetary Policy," *Monetary Management,* Research Studies Prepared for the Commission on Money and Credit (Englewood Cliffs, N.J., Prentice-Hall, 1963), p. 341.

[27] Assets herein include deposits with Federal Reserve, demand deposits with other banks and currency and coin.

Changes in required reserve ratios do indeed "touch" nonmember banks because they affect the reserves member banks must keep against what are in affect the reserves of the nonmember banks, their correspondent balances. Moreover, this instrument of control was sparingly used even in the days when no inhibition such as attrition of membership influenced policy actions. As to the announcement effect of changes in reserve requirements, discerning persons must indeed be cynical. The best possible signal of changing monetary policy, well forged in more than two centuries of use by the Bank of England, is clearly a change in Bank Rate—in this country, the discount rate. The restoration of the discount rate to true money market status would return to its arsenal the best possible Federal Reserve weapon for signaling nuances of change in monetary policy. Further, major changes in monetary policy not announced publicly are noted privately in the money market shortly after Federal Reserve action has been taken.

3. By rquiring all banks to keep reserves with Federal Reserve, "the precision and the certainty" with which the central bank exercises its controls would be improved. The effects of given policy actions on the volume of deposits and bank credit—or more accurately—on the money supply, would be more predictable.

As indicated by the brief summary of money-supply processes provided in Section 2, the uncertainty of prediction introduced by the fact that nonmember banks do not keep reserves with Federal Reserve is both absolutely and relatively very small indeed. At most this arrangement makes for no more uncertainty of prediction than the arrangement that small member banks have smaller required reserve ratios than large member banks. If increased certainty of prediction of the money multiplier is deemed a worthy end, as indeed it is, Federal Reserve should act at once to secure repeal of the statutory requirement of reserves against U.S. government deposits, an anachronistic reminder of the monetary folklore of another generation. But, for that matter, any one of the items on the "reform shopping list" of Poole and Lieberman, noted above, is a candidate for change if monetary control is to be improved. The only changes that might be helpful with respect to nonmember bank reserves would be the simple one of requiring periodic reports of deposits and reserves or acceptance by Federal Reserve of alternative methods reportedly already developed for reliable estimation of nonmember bank data. In a word, Federal Reserve should be required to make a case for its own regulated *un*uniform reserve requirements.

Nor does it make any difference for purposes of monetary control that a slowly decreasing proportion of commercial bank assets and deposits fall under the direct control of Federal Reserve. Indeed, a good case can be made in support of the view that additional banks not heavily involved

in correspondent banking services be permitted to withdraw from the Fed. Although such banks choosing to withdraw might represent only a small fraction of the total banking resources of the nation, some additional withdrawals would strengthen the correspondent banking system to the benefit of the public and, in many cases, would achieve greater equity among banks. In any case, there is little or no theoretical or empirical justification for the argument of Federal Reserve that erosion of System membership may ". . . weaken public confidence in the nation's central bank and its ability to maintain a stable currency and a sound banking system."

For massive injections of Federal Reserve credit in recent years suggest that "precision" of monetary control is not what is lacking. One finds it hard to believe that a rate of change of the money stock at a 6.3 per cent average annual rate from 1967 to 1972, compared with an average annual rate of 2.1 per cent in the 1951-61 decade, is the consequence of lack of "precision" of monetary control; or that a runup of the monetary stock at an 11 per cent annual rate during the first seven months of 1971 just happened; or that the money stock showed practically no increase from early July to early October 1973, after increasing at a 10 per cent annual rate during the previous three-month period, because of failure to predict more accurately changes in the monetary base and in the money multiplier. One finds it hard to believe that added precision associated with compulsory affiliation for reserve purposes would be more than a distant candle flickering in the night compared with the dual uncertainty of (1) time lags between monetary policy actions and their primary influences on the economy and (2) imperfections in the art of forecasting the state of the economy a year hence in order to determine appropriate current policy changes. The conclusion must be that what is needed is not greater precision of the mechanism controlling the wheel and rudder but better lights to steer by.

The American dual banking system admittedly diffuses the absolute authority of a single autarchic monetary authority. In the most equitable of all possible institutional arrangements, it permits those banks that find System membership desirable, for whatever reason, to elect membership. It also permits those that find nonmembership desirable, for whatever reason, to elect nonmembership. Because there is a choice, there is relief from coercion, for any member bank that feels unjustly dealt with may withdraw, and any bank that would escape state supervisory tyrrany may alter its charter to become a national bank and join the System. The issue is really not economic at all but political. Those who resist the notion that the U.S. economy requires a czar over all our financial institutions will resist also the proposition that all commercial banks should be under permanent Federal Reserve surveillance.

APPENDIX ONE

Following are the changes in Regulations D, J, and M that have occurred effective September 1, 1960, and later. Although efforts have been made to assure the accuracy of this list, all changes should be verified by reference to official Federal Reserve sources.

1. Effective September 1, 1960, the reserve requirement of central reserve city banks against their net demand deposits was reduced from 18 per cent to 17½ per cent. This action reduced required reserves approximately $120 million and reserves available to support private nonbank deposits (RPDs) $100 million.
2. Effective November 24, 1960, the reserve requirements of country banks against their net demand deposits was increased from 11 per cent to 12 per cent. This action increased required reserves approximately $380 million and RPDs $360 million.
3. Effective December 1, 1960, the reserve requirement of central reserve city banks against their net demand deposits was reduced from 17½ per cent to 16½ per cent. This action reduced required reserves approximately $250 million and RPDs $200 million.
4. Effective October 25, 1962, the reserve requirement of reserve city banks against their time deposits was reduced from 5 per cent to 4 per cent. This action reduced required reserves and RPDs approximately $410 million.
5. Effective November 1, 1962, the reserve requirement of country banks against their time deposits was reduced from 5 per cent to 4 per cent. This action reduced required reserves and RPDs approximately $360 million.
6. Effective June 9, 1966, balances accumulated for the repayment of personal loans (hypothecated deposits) were eliminated from time deposits following a change in Regulation D. This change reduced all commercial bank other-time deposits about $1.1 billion and member bank other-time deposits about $900 million.
7. Effective July 14, 1966, the reserve requirement of reserve city banks against time deposits (other than savings deposits) in excess of $5 million was increased from 4 per cent to 5 per cent. This action increased required reserves and RPDs approximately $350 million.
8. Effective July 21, 1966, the reserve requirement of country banks against time deposits (other than savings deposits) in excess of $5 million was increased from 4 per cent to 5 per cent. This action increased required reserves and RPDs approximately $70 million.
9. Effective September 8, 1966, the reserve requirement of reserve city banks against time deposits (other than savings deposits) in excess of $5 million

was increased from 5 per cent to 6 per cent. This action increased required reserves and RPDs approximately $370 million.

10. Effective September 15, 1966, the reserve requirement of country banks against time deposits (other than savings deposits) in excess of $5 million was increased from 5 per cent to 6 per cent. This action increased required reserves and RPDs approximately $75 million.

11. Effective March 2, 1967, the reserve requirement of all member banks against savings deposits and the first $5 million of time deposits was reduced from 4 per cent to 3½ per cent. This action reduced required reserves and RPDs approximately $425 million.

12. Effective March 16, 1967, the reserve requirement of all member banks against savings deposits and the first $5 million of time deposits was reduced from 3½ per cent to 3 per cent. This action reduced required reserves and RPDs approximately $425 million.

13. Effective January 11, 1968, the reserve requirement of reserve city banks against net demand deposits in excess of $5 million was increased from 16½ per cent to 17 per cent. This action increased required reserves approximately $360 million and RPDs $310 million.

14. Effective January 18, 1968, the reserve requirement of country banks against net demand deposits in excess of $5 million was increased from 12 per cent to 12½ per cent. This action increased required reserves approximately $190 million and RPDs $170 million.

15. Effective April 17, 1969, the reserve requirement of all member banks against net demand deposits was increased ½ percentage point. This action increased required reserves approximately $660 million and RPDs $590 million.

16. Effective during the last half of 1969, certain promissory notes and other instruments became subject to Regulation D. See August 1969 *Federal Reserve Bulletin*, pp. 655-656.

17. Effective October 16, 1969, a 10 per cent marginal reserve requirement was established on certain foreign borrowings, primarily Eurodollars, by member banks and on the sale of assets to their foreign branches. This action increased required reserves and RPDs approximately $400 million.

18. Effective October, 1970, the reserve requirement of all member banks against time deposits (other than savings deposits) in excess of $5 million was reduced from 6 per cent to 5 per cent. At the same time, a 5 per cent reserve requirement was imposed against funds obtained by member banks through the issuance of commercial paper by their affiliates. This action reduced required reserves and RPDs approximately $500 million (net).

19. Effective January 7, 1971, the reserve percentage required to be maintained against certain foreign borrowings, primarily Eurodollars, by member banks, and the rate of assets to their foreign branches was raised from 10 per cent to 20 per cent. This action had little effect on required reserves and RPDs.

20. Effective November 9, 1972, Regulations D and J were revised to (1) adopt a system of reserve requirements against demand deposits of all member banks based on the amount of such deposits held by a member bank, and (2) to require banks—member and nonmember—to pay cash items presented by a Federal Reserve Bank on the day of presentation in funds available to the Reserve Bank on that day. These changes reduced required reserves approximately $2.5 billion effective November 9, and $1 billion effective November 15, and increased required reserves $300 million effective November 22. On the same dates, RPDs were reduced $2.3 billion and $785 million, and increased $235 million, respectively.

21. Effective the June 21-27, 1973 reserve week, an 8 per cent marginal reserve requirement (the regular 5 per cent plus a supplemental 3 per cent was imposed on further increases in the total of (a) outstanding, single maturity certificates of deposit of $100,000 and over issued by member banks, and on (b) outstanding funds obtained by a bank through issuance by an affiliate of obligations subject to the existing reserve requirement on time deposits. The requirement will apply to increases over the base week of May 16, 1973. The 8 per cent marginal requirement would not apply to banks whose obligations of these types aggregate less than $10 million. See May 1973 *Federal Reserve Bulletin*, pp. 375-376.

22. Effective the June 21-27, 1973 reserve week, the reserve requirement on certain foreign borrowings of U.S. banks, primarily Eurodollars, was reduced from 20 per cent to 8 per cent, thus affording roughly parallel treatment at present with the marginal requirement on large-denomination certificates of deposit and bank-related commercial paper. The Board also acted to eliminate gradually the reserve-free bases still held by some banks subject to this measure.

23. Effective the July 12-18, 1973 reserve week, a reserve requirement was applied to funds raised by banks through sales of finance bills (sometimes called working capital acceptances). Under this requirement, finance bills became part of the total obligations subject to the 8 per cent marginal reserve requirement. This increased required reserves by about $90 million.

24. Effective the July 19-25, 1973 reserve week, the reserve requirement on all but the first $2 million of net demand deposits at member banks was increased by one-half of one percentage point. The change increased required reserves by about $760 million.

25. Effective the August 30-September 5, 1973 reserve week, member banks that were requested to file the base amount of deposits subject to marginal reserves they had outstanding during the week ending May 16, 1973, were asked to revise their base to include multiple maturity time deposits of $100,000 or more.

26. Effective the October 4-10, 1973 reserve week, the marginal reserve requirement increased from 8 to 11 per cent subject to the proviso that in no event shall the reserve required of a member bank on its aggregate amount of time and savings deposits exceed 10 per cent. An increase in the marginal reserve requirement to 11 per cent required member banks to maintain an additional $450 million required reserves. The effect of this,

however, was largely offset by Federal Open Market Committee transactions.

27. Effective the December 13-19, 1973 reserve week, the marginal reserve requirement on large denomination certificates of deposit was reduced from 11 to 8 per cent. This reduced by about $375 million the reserves required to support member bank deposits. The monetary policy impact of this reduction was partly offset by Federal Open Market Committee transactions.

OFFICE OF THE PRESIDENT

February 9, 1976

Senator Thomas J. McIntyre
Chairman
Senate Subcommittee on Financial Institutions
Dirksen Building--Room 5300
Washington, D. C. 20515

Dear Senator McIntyre:

RE: S. 958 -- The Foreign Bank Act of 1975

On January 29, it was my pleasure as First Vice President of the Conference of State Bank Supervisors to testify before the Senate Subcommittee on Financial Institutions regarding the above bill.

Following the conclusion of my testimony you furnished me with a list of questions, and requested that answers to the questions be submitted to you.

Attached is a memorandum submitted in behalf of the Conference of State Bank Supervisors which I believe is responsive to your questions. If you need any clarification or elaboration regarding the answers in this memorandum, please feel free to communicate directly with me as Superintendent of Banks for the State of Oregon, Banking Division, Department of Commerce, Busick Building, Salem, Oregon 97310. If you prefer, please contact Dr. Lawrence E. Kreider, Executive Vice President-Economist of CSBS at 1015 18th Street, N.W., Washington, D. C. 20036 (202/296-2840), or Mr. Alexander W. Neale, Director of Government Relations

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for the Conference at the above Washington, D. C. address.

Cordially,

John B. Olin

John B. Olin
Superintendent of Banks
State of Oregon -
First Vice President
Conference of State Bank Supervisors

JBO:drj

Attachment

Answers By The Conference of State Bank Supervisors

To Questions Regarding

S. 958 - The Foreign Bank Act of 1975

I

With respect to the question of extending the dual banking system to foreign banks by granting them a federal license or chartering option under the supervision of the agency which regulates national banks, CSBS supports facilitating the granting of such a federal option to foreign banks desiring to operate in this country either as subsidiaries, branches or agencies. To facilitate such federal option, CSBS supports waiving present requirements in the National Bank Act which require directors of a foreign-owned banking facility to be American citizens. CSBS believes that the Comptroller of the Currency should have supervisory responsibility over federally-chartered foreign banking facilities.

As set forth in detail in the testimony submitted by the Conference of State Bank Supervisors (CSBS) regarding S. 958, it is the position of the Conference that a federal charter should not carry with it the authority for a foreign-owned bank to operate either as a subsidiary, branch or agency except where state law provides for such foreign-owned banking facilities to operate under state charter.

With respect to the question that "this Federal option might carry with it mandatory Federal membership," it is assumed this question refers to a federal charter carrying with it mandatory membership in the Federal Reserve System for foreign-owned banks.

A national charter for domestic commercial banks now carries with it automatic membership in the Federal Reserve System. CSBS, therefore, has no objection to a national charter carrying with it membership in the Fed for a foreign-owned bank choosing such charter. However, as detailed in its statement, CSBS does oppose compulsory membership in the Fed for foreign banks choosing to operate under a state charter. Membership in the Fed is optional for domestic state-chartered commercial banks and should be for state-chartered foreign banking facilities in the U. S.

With respect to the question that "as with national banks, geographic location would be left to the Federal regulator," it is the position of CSBS that geographic location within a state for a federally-chartered foreign bank should be consistent with the provisions of the McFadden Act for domestic commercial banks. Under the McFadden Act national banks are permitted to branch in a state only where this is permitted to state-chartered commercial banks, and then only to the extent such branching is permitted state-chartered commercial banks.

Furthermore, CSBS opposes a federal charter carrying with it the right to enter a state in contravention of state law. CSBS believes that a state should have the right to structure the financial institutions within its borders in a manner which it believes best serves the needs of its residents, and in the absence of some compelling national interest - which CSBS does not believe present with respect to the objectives of S. 958 - that the federal government should not preempt state statutes or regulations in this area.

II

With respect to the question of leaving the states free to charter foreign banking operations as they presently do, with Fed membership purely voluntary, CSBS supports the principle that states should be able to grant state charters to foreign banks desiring to operate under them. CSBS, as detailed in its statement regarding S. 958, supports the concept of optional or voluntary membership in the Federal Reserve System.

In connection with the above, CSBS does not believe it is necessary - as proposed in S. 958 - to impose a federal licensing prerequisite from the Comptroller of the Currency before a state banking department may issue a state charter to a foreign bank desiring to enter this country. There has been no showing that the absence of this federal licensing prerequisite for over a hundred years has adversely affected in any significant way our national policy objectives relative to the treatment of U. S. banks operating overseas, or with respect to the efforts of foreign banks to establish facilities in the United States.

III

With respect to the question of giving the Federal Reserve System "...perhaps, a more direct handle, if appropriate, over foreign bank reserves," CSBS reiterates its position that the Fed has made no showing that it needs reserve-setting authority over domestic or foreign banks in order to carry out its monetary policy responsibilities. As detailed in the CSBS statement regarding S. 958, monetary policy inadequacies and excesses of the past decade - and for prior periods - cannot reasonably be attributed to the option of affiliation or non-affiliation of some banks with the Fed for reserve purposes. Furthermore, equitable treatment of all banks is permitted under the optional affiliation concept now in effect. Some state-chartered banks benefit from membership in the Fed while other state-chartered banks benefit from non-affiliation with the Fed.

IV

With respect to the question that "If needs be, superimpose a Federal registration and reporting requirement over foreign banks

to permit the Federal government to better monitor their activities...," it is the belief of CSBS that foreign banks - as they have done willingly in the past - will meet any reporting requirements with the Fed where there is a demonstrated need for information as to the operations of a foreign bank. Federal Reserve officials have in the past publicly commented that foreign banks in this country have cooperated with that agency in providing data needed by the Fed.

The term "federal registration" as contained in this question is rather vague. However, as indicated earlier in this memorandum, CSBS does not believe there has been any showing of the need for a federal licensing prerequisite before a state banking department can issue a state charter to a foreign bank desiring to operate under such charter.

V

With respect to the question of making FDIC insurance available to any foreign bank office which accepts domestic deposits, with appropriate safeguards to protect the insurance fund, it is pertinent to point out there is a difference of opinion among state bank supervisors as to the necessity of extending FDIC insurance to a foreign branch or agency. As detailed in the testimony submitted by CSBS, various states having foreign branches within their borders have taken special measures designed to assure the safety and soundness of these branches where they accept domestic deposits. Foreign agencies, as the Subcommittee is aware, do not accept domestic deposits, and foreign banks which organize in this country as subsidiaries under state charter do have FDIC insurance at this time.

VI

With respect to the question of how to treat the securities affiliates of foreign banks until a review has been completed of the Glass-Steagall Act, CSBS supports the proposition that there should not be federal legislation affecting such securities affiliates until there has been a resolution of the Glass-Steagall issue. It is noted that the Senate Securities Subcommittee is presently conducting such a study.

Following a review of that Act, should there be a continuation of the prohibitions now in effect relative to domestic banks, then CSBS would favor prohibiting such nonbanking activities for foreign banks. However, CSBS believes that it is only equitable, in such an event, to grandfather nonbanking operations established on or before the original date of introduction of the Fed's proposal in Congress to regulate foreign banks (December 3, 1974). This grandfathering aspect would also be desirable to prevent retaliatory action against U. S. banks operating abroad.

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VII

With respect to the question of whether at the present time U. S. banks are placed at any real competitive disadvantage vis-a-vis foreign banks by virtue of the multi-state operations of the latter, CSBS is of the strong belief that our domestic banks are not at any real competitive disadvantage because of the multi-state operations of foreign banking facilities. As pointed out in some detail in the statement submitted by CSBS regarding S. 958, U. S. banks conduct a far more significant level of interstate operations than do foreign banks.

With respect to the question of whether a state should be permitted to invite a foreign bank into its borders regardless of whether such foreign bank may be doing business elsewhere, it is the position of CSBS that a state should have this power if such action is considered consistent with its interests, and is not in conflict with the state laws where the out-of-state foreign banking facility is located. As pointed out in the CSBS statement submitted on S. 958, the State of Illinois in 1973 began to invite foreign branches to operate within certain areas of Chicago -- even though some of those branches were located elsewhere in this country. Illinois did this as part of its efforts to increase its stature as an international financial center. CSBS believes it is in our national interests to permit such development. To do otherwise in the foreign banking field would likely result in foreign banks choosing California or New York, exclusively, for their U. S. operations, to the detriment of other states.

STATE OF NEW YORK
BANKING DEPARTMENT
TWO WORLD TRADE CENTER
NEW YORK, N.Y. 10047

March 3, 1976

Dear Senator McIntyre:

Thank you for the opportunity to comment on your proposals for improving the Federal Government's control over foreign banking in the United States. Study of these proposals suggests that they rest upon a philosophy shared by the New York State Banking Department. As a result, the Department finds itself in fundamental agreement with the proposals.

Specific comments follow on each of the seven features of the proposals.

1. The New York State Banking Department agrees with the concept of extending the dual banking system to foreign banks by providing a Federal chartering option under the supervision of the agency charged with the regulation of national banks. This Federal authority should be empowered to approve applications without reference to the state regulatory authorities. Federal law should also be amended to eliminate the restrictions on the citizenship and residence of the directors of national banks and on the citizenship of the owners of the stock of Edge Act corporations. Utilization of the Federal chartering option by a foreign bank should include acceptance of Federal Reserve membership, as is the case with domestic national banks.

The New York State Banking Department believes that all changes effected in the regulation of foreign banking in the United States should seek, for foreign banks, to provide the same opportunities and to impose the same limitations as now exist for domestic banks. The goal, to summarize, is equality of options and equality of treatment once an option has been selected. The Federal charter option is consistent with the attainment of that goal.

2. This department also believes that the preservation of local markets serves the public interest and that preservation of such markets requires a degree of autonomy in the regulation of those markets. State banking departments permit bank entry and establish the conditions of banking activity in response to their perception of local needs. States should retain their existing authority to charter or license foreign banking organizations, and Federal Reserve membership should continue to be voluntary.

3. It has been proposed that the Federal Reserve be given a "more direct handle, if appropriate, over foreign bank reserves". The Banking Department would submit that such a handle is neither appropriate nor needed. Under existing laws, banking organizations owned by foreigners are subject to essentially the same reserve requirements as domestic banks. A foreign bank operating as a state-chartered bank is subject to whatever reserve requirements are imposed by that state on domestic non-member banks. In New York, foreign branches are also subject to such reserve requirements. In Illinois, where state-chartered non-members of the Federal Reserve are not subject to reserve requirements, foreign branches are required to maintain reserves equal to those required by the Federal Reserve for member banks. Foreign branches in California are not subject to reserve requirements, but California does not permit such branches to accept deposits.

Foreign branches are also subject to special reserve requirements imposed to safeguard uninsured liabilities. Both Illinois and New York, where most foreign branches are located, impose the 108 per cent rule which requires obligations equal to 108 per cent of the branch's liabilities and payable in United States funds to be held in the state.

Agencies are not subject to reserve requirements, but agencies are not deemed to be "banks" since they are not permitted to accept domestic deposits.

It is difficult to understand why the Federal Reserve must have a stronger "handle" on the reserves of foreign banking organizations than it has on the reserves of non-member banks. Indeed, equality of options would suggest that legislation should not single out foreign banking organizations or treat them any differently than non-member banks.

4. The Banking Department agrees that a Federal registration and reporting requirement could properly be imposed upon foreign banking organizations operating in the United States. Such a requirement would enable the Federal authorities to secure the information needed to ensure that foreign banking activity is consistent with national policy objectives. Appropriate remedial action could be initiated when and if this system disclosed significant problems.

Care should be taken, however, to ensure that the registration requirement does not become tantamount to licensing and that the reporting requirement does not become unduly burdensome. Perhaps the Federal authority should simply receive reports or parts of reports prepared for the state supervisory authorities, as occurs in New York.

5. The Bank Holding Company Act requires the subsidiaries of foreign banks to carry Federal Deposit Insurance, just as subsidiaries of United States banks do. Until now, however, the F.D.I.C. has refused to offer insurance to the branches or agencies of foreign banks. The Banking Department would support any legislation designed to extend federal deposit insurance to domestic offices of foreign banks which accept domestic deposits. Since agencies may not accept domestic deposits, they do not need, and could not secure, Federal Deposit Insurance.

Making deposit insurance available to foreign branches which accept deposits in the United States would be consistent with the principle of equality of treatment. Presumably, branches engaged exclusively in a wholesale international banking business would continue to operate without the insurance, as U.S. Edge Act Corporations do.

Chairman Wille and others have repeatedly stated that the insurance of banking organizations incorporated abroad would raise technical problems. The existence of these problems suggests that the approach recommended by the Federal Reserve Board should be adopted - i.e., the F.D.I.C. should be directed to design a program by means of which such insurance may be made available to foreign branches and that, within a specified time period, it submit such program to the Congress for its review and consideration.

6. The Securities Subcommittee of the Senate's Committee is now engaged in an extensive review of the restrictions on bank activity imposed by the Glass-Steagall Act. The New York State Banking Department believes that foreign and domestic banking organizations should be subject to the same restraints with respect to their involvement in securities activities.

The problem of the securities affiliates is limited to foreign bank branches. Subsidiaries are covered, at present, by the bank holding company restraints. While agencies may be affiliated with securities firms, since they do not take deposits, they are not true banks and should continue to be outside of the coverage of Glass-Steagall. Less than a dozen foreign bank branches have securities affiliation of any kind. These branches should be subject to any restrictions which arise from the fresh review of Glass-Steagall, with some consideration to grandfathering such present activities which have a de minimus effect.

7. Foreign banks appear to enjoy little competitive advantage vis-a-vis United States banks with respect to multi-state activity. Subsidiaries of foreign banks are, of course, subject to the Bank Holding Company Act restraints on interstate branching. A limited advantage may exist in retail banking since foreign banks may establish deposit-taking branches in five states (New York, Illinois, Washington, Oregon and Massachusetts), but United States banks may not branch across state lines. Relatively few foreign banks, however, have established branches in more than one state.* Although foreign banks can establish agencies in other states, agencies may not accept deposits.. Consequently, they do not engage in a retail banking business, and the foreign banks enjoy no competitive advantage with respect thereto.

Large United States banks do far more multi-state banking than foreign banks when it comes to wholesale banking. These banks have the ability to conduct wholesale banking activity in more than one state by way of the

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* According to data prepared by the Federal Reserve Board, a total of 15 banks had established branches in more than one state as of September 1975.

following forms:

1. loan production offices and operating subsidiaries;

2. interstate non-banking activities of bank holding companies permitted under section 4(c)(8) of the Bank Holding Company Act (Federal Reserve figures indicate 662 of the applications filed for such interstate activities were approved between 1971 and 1974);

3. Edge Corporation offices (thirty-two banks have some seventy-seven out-of-state Edge Corporation offices involved in international banking activity); and

4. grandfathered multi-state banking. (As of year end 1974, eight United States bank holding companies held banks in more than one state under the Douglas Amendment to the Bank Holding Company Act of 1956.)

A recent series of articles in the American Banker discussed the extent of this multi-state activity. The articles indicated that twelve bank holding companies, located in seven states, had a total of approximately 1400 offices engaged in banking-related activities and located in states other than that of the anchor bank of the holding company. In addition, the same twelve holding companies conduct operations across state lines through thirty-four Edge Act Corporations and twenty-three loan production offices.

A review of the data on multi-state banking indicates that whatever competitive inequality may exist is insignificant. As a result, the Banking Department believes that those states which wish to should be permitted to continue to invite foreign banks to do business therein without reference to whether the foreign banks may be doing business in any other state.

This, again, is consistent with a policy founded on equal treatment. It should be noted that the states are free to permit the acquisition of subsidiary banks within their boundaries by domestic out-of-state holding companies. (This authority is found in Section 3(d) of the Bank Holding Company Act). With one or two exceptions, the states simply have declined to exercise this option for domestic banks. In 1973, former Governor Rockefeller invited

such reciprocal arrangements between New York and California, Illinois, Massachusetts and Texas. No action has been taken on this initiative.

I trust you will find these comments helpful. Please call upon me if there is any further information or assistance which can be provided to you by the Banking Department of New York State.

Sincerely yours,

Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Committee on Banking, Housing and Urban Affairs
Room 5300 Dirkson Senate Office Building
Washington, D. C. 20510

Senator McIntyre. We will call as our final witness for the day a panel of the Bankers' Association for Foreign Trade, represented by: Mr. Douglas A. Smith, executive vice president; Mr. Jack R. Jessen, secretary; and Mr. Thomas L. Farmer, counsel.

Would you come up, please?

As I told the previous group from the Conference of State Bank Supervisors, we are glad to welcome you here today. We appreciate your patience in waiting to be called and admonish you to try to save as much time on your formal statements as you can.

Do you all have statements?

STATEMENT OF DOUGLAS A. SMITH, EXECUTIVE VICE PRESIDENT, JACK R. JESSEN, SECRETARY, AND THOMAS L. FARMER, COUNSEL, THE BANKERS' ASSOCIATION FOR FOREIGN TRADE

Mr. Smith. No, sir, we have one statement here.

Senator McIntyre. All right, Mr. Smith, you may incorporate it in its entirety in the record, and if there is any place you can save us a little time so we can get to some of these questions to see what your attitudes are, that would be much more interesting to us.

Go right ahead, sir.

Mr. Smith. Thank you, Mr. Chairman.

My name is Douglas A. Smith, and I am the executive vice president of the Bankers' Association for Foreign Trade. And I am senior vice president of the Industrial National Bank of Rhode Island.

Senator McIntyre. You are a New Englander. You will probably be able to understand me.

Mr. Smith. I am accompanied today by Mr. Jack R. Jessen, chairman of the Association's Committee on Foreign Banking in the United States, and by Mr. Thomas L. Farmer of the Washington law firm of Prather, Seeger, Doolittle, Farmer and Ewing.

The Bankers' Association for Foreign Trade was founded in 1921 by a number of inland banks who wanted to expand their knowledge of international trade and provide improved international banking services to their customers.

Today, our membership of 140 U.S. banks includes virtually all of those who have significant international operations. Our members come from 56 cities in 32 States of the United States in addition to the District of Columbia and Puerto Rico.

In addition to our voting U.S. members, we also offer nonvoting status to 68 foreign banks with operations in the United States.

Over the past several years, the Bankers' Association for Foreign Trade has given very active consideration to the issues involved in the regulation of foreign banking in the United States through meetings of our various committees through discussions with the managements of our respective banks and in our annual meeting.

In fact, in the past 3 years at our annual meeting, we have adopted a policy statement which includes the position on the regulation of foreign banking in the United States. Therefore, we very much appreciate the opportunity to appear before you today in

general support of the Foreign Banking Act of 1975, Senate bill 958.

We have prepared a written statement which has been presented to the committee. I would like to summarize it in these oral remarks. And Mr. Jessen and Mr. Farmer and I will certainly be pleased to answer any questions which you might have.

Senator McIntyre. All right, sir.

Mr. Smith. Our statement discusses the vast expansion of international banking in recent years and its importance to American banks. We have followed our customers abroad as they have taken advantage of international business opportunities, and we think that this has been of benefit. not only to the banks themselves, but to the U.S. economy.

Certainly, it has improved the profit opportunities of American banks. It has given us an opportunity to broaden our earning assets and broaden our deposit base.

We expect fair treatment from foreign governments when we go abroad, and we hope that the rules under which we operate in foreign countries will be fair and consistent.

Likewise, foreign banks have entered the United States in increasing numbers in recent years. Initially, I think following their customers into this economy and gradually expanding their operations here.

We feel that this is of benefit to the U.S. economy. The foreign banks provide additional competitive services to the banking community of the United States which hopefully means better innovative services, improved convenience for the American banking public. They attract foreign investment to the United States, and they assist U.S. firms in their activities overseas, particularly in those foreign markets where these foreign banks have special expertise.

Basically, our position is that we believe in equal national treatment. That is to say, foreign banks should be treated——

Senator McIntyre. Let me ask you a question. In your opinion, are we fairly treated, you people in foreign banking, by the host country?

Mr. Smith. It varies tremendously from one country to the next.

Senator McIntyre. Generally, would you say you are treated fairly by the countries in which you are operating?

Mr. Smith. Yes, sir, I think this is evidenced by the fact that American banks have expanded very rapidly and are located in a great many countries overseas.

Would you care to comment, Jack?

Mr. Jessen. I would say, yes, the very fact that you have had such expansion of American banking since the war into virtually all major areas of the world, they have been able to compete in the markets there and have been successful in their operations, we would as a group say, yes, that we have been treated fairly overseas.

Senator McIntyre. I don't want to get into a long, detailed answer to this, but why this difficulty with Canada?

Mr. Smith. Well, the Canadian economy obviously is much smaller than the economy of the United States.

Senator McIntyre. Afraid of a takeover?

Mr. SMITH. And much of it is located along the border of the United States. And I think there is a feeling on the part of Canadian authorities that there is a danger of too much.

However, I don't think that feeling is necessarily shared by the Canadian banks.

Senator MCINTYRE. All right. Get back on track.

Mr. SMITH. OK, thank you, sir.

So basically, we are in favor of equal treatment. That is to say, foreign banks should be treated as American banks are treated, subject to the same laws and regulations.

Now, we must concede that the present situation wherein there is no Federal regulation or legislation, wherein foreign banks deal almost exclusively with the States in entering the United States has created inequities of treatment, particularly with regard to interstate banking with securities and investment activities, ease of entry, Federal Reserve membership or reserve requirements and insurance.

We then——

Senator MCINTYRE. Is it fair to say then in some instances, the foreign banks are being treated better than our own?

Mr. SMITH. Well, being treated, that is to say the accident of the fact that there is no Federal legislation, that has enabled foreign banks to do some things which American banks are not able to do.

Senator MCINTYRE. But the American banks are not complaining, are they?

Mr. SMITH. Well, we do feel there is a need.

Senator MCINTYRE. Good. They are complaining.

Go ahead.

Mr. SMITH. We do feel there is a need. That is, I should say the majority of our membership does feel there is a present need for legislation which would provide for Federal regulation of foreign banking in the United States.

Senator MCINTYRE. Do you support S. 958?

Mr. SMITH. The majority of our members do support it. We have reviewed most or all of the legislative proposals which have been before the Congress over the past year or two, and we think this S. 958 provides the best answer to a very complex problem.

Mr. FARMER. We are here to testify in support of that bill.

Mr. SMITH. We feel that a foreign bank wishing to enter the U.S. market should be required to select a State of domicile. And it should be allowed to select a State or national charter, expand within that State in accordance with State and Federal laws.

In other words, engage in whatever activities domestically owned banks are permitted to engage in within that State. Comparable reserve requirements, acceptance of deposits, and so on.

We feel that foreign banks should be allowed to expand beyond State borders in the same manner that domestically owned banks are able to expand, presently through the Edge Act corporation. In other words, foreign banks should be permitted to own Edge Act corporations and expand on an interstate basis to conduct an international banking business.

We think that foreign-owned banks should be limited to those activities which are considered to be closely related to banking by the Federal Reserve Board under the Bank Holding Company Act of 1970. And we think they should not be permitted to own equities in commercial enterprises beyond those that are held by domestically owned banks.

Senator McINTYRE. None of your foreign operations allow you to do this?

Mr. SMITH. Generally speaking, we are permitted to engage in those businesses which are permitted to domestic banks. And in some cases where those powers go beyond the powers which we would have within the United States such as underwriting of securities in the domestic market, we are permitted to do that by Federal Reserve regulations.

An important consideration in any legislation would be the treatment of noconforming activities. Obviously, there are a number of banks now established in the United States whose activities do not conform to the proposed legislation under S. 958. We believe that existing activities should be permanently grandfathered.

Our reason for this is we think in terms of broad foreign investment policy, this would be in the best interest of the United States. The United States has long been a proponent of foreign investment, investing country and the country receiving the investment.
and the benefits of investment both from the point of view of the

And I know that when American firms go overseas, they hope that they will be protected, that the rules of the game will not be changed after they have made their investment. And we simply feel that foreigners should be treated the same way in the United States.

Senator McINTYRE. How do you feel about that statement that the Comptroller made, he thought there was going to be a leveling off of foreign banking activity in the United States?

Mr. SMITH. I think that is a temporary situation based on current economic conditions. All banks are coping——

Senator McINTYRE. From your vantage point, you don't see that lasting; you see a continued activity of foreign banks?

Mr. SMITH. Oh, yes. I think as soon as economic conditions permit, there will be another surge of interest in expansion. And it has taken 3 years or more for the Federal Reserve to develop this legislation to this point. I think it would be a shame if that were to be lost.

We don't see, however, the present activities of foreign banks in the United States, were they to be grandfathered, as any great threat to us from a competitive point of view. We don't consider that an undue concentration of the economic power or threat to monetary policy.

There are certain aspects of the S. 958 with which we disagree. We are not in favor of compulsory Federal Reserve membership simply on the basis of equal treatment; mandatory Federal Reserve membership is not required of domestically owned banks. We don't think it should be required of foreign-owned banks.

Likewise, we are not in favor of mandatory FDIC insurance, although we certainly think it should be available. And we would

expect with foreign banks operating in the retail market, they would seek FDIC insurance.

So to summarize, the Bankers' Association for Foreign Trade believes banks should be treated equally with domestic banks. Most of our members feel there is a need now for legislation which would provide for Federal regulation.

We have considered the legislative proposals, and generally, we favor the provisions of S. 958, with certain exceptions. And we support the grandfathering provisions.

Thank you, Mr. Chairman. We would be happy to answer any questions.

Senator McIntyre. Thank you, Mr. Smith.

I will proceed to ask questions, and if your associates want to comment, I will direct all the questions to you, and you can comment or add. No duplication, please.

If you agree with the general statement fine; if you can add something to it, fine, or disagree with it, OK.

Mr. Smith, I will ask you the same question I asked yesterday. The threshold question here is whether there is any overriding need for Federal legislation at this time. Apart from monetary policy considerations, what national public policy considerations mandate a sweeping federalization of foreign banking activity at this time?

Mr. Smith. The present situation does not provide for equal treatment of foreign banks and domestic banks operating in the U.S. market. We have a difficult time getting a concensus on the need for legislation.

But we did very carefully poll all of our members, and the consensus is the great majority of our members do feel legislation is needed. And I think it is because that foreign banks can, through dealing with the separate States, establish full-service banking operations in more than one State.

And most of our members feel that this is a competitive disadvantage.

Senator McIntyre. Let me add to that question before other comments.

The allegations that seems to be made is the competitive advantage of foreign bank affiliates in the United States is more illusory than real. For example, while foreign banks may on the surface be able to engage in multistate operations to a larger extent than U.S. banks, the allegation is made that in reality, U.S. banks are engaged in a substantial interstate business and that there is no competitive disadvantage.

Would you comment?

Mr. Smith. Yes, sir.

The foreign banks can open full-service branches in more than one State. This is still something which we can't do. In other words, we can't open an office in another State and solicit deposits from residents of that State directly over our counters or make loans directly over our counters, collect those loan payments directly over those counters in that other State.

And by means of dealing with several States, foreign banks can do that. They also, of course, can own securities affiliates, and we are prohibited from that activity.

Senator McIntyre. Any further comment?

Mr. Smith. The other thing I might add is that because a foreign bank today must deal with separate States, he may be denied entries to a certain State. And this in turn might cause a discriminatory action on the part of the foreign government against a bank from that State should he enter the foreign market.

We feel this is unfortunate.

Mr. Farmer. I would like to go back to your earlier question about the neeed for legislation. I think one of the problems for any foreign investor, anyone investing abroad, is certainly of the ground rules. So long as there is a good deal of sentiment that sooner or later the ground rules for foreign banks are going to be changed, there is going to be a reluctance by foreigners to proceed with their plans for investment.

The sooner a pattern is derived, the sooner the foreign banks or foreign investors, will know on what basis they are going to operate. It is not a very good atmosphere to have this sword of Damocles hanging over the banks.

A lot of activities that may or may not be grandfathered, in other words, is being permitted to them. If there could be some assurance to the foreign banks this present pattern is going to remain for a long time to come, that might be one solution to the problem. But so long as there is a good deal of sentiment in the country from various sources that this present pattern needs to be adjusted, there is a good deal to be said that the adjustment might come at a time when the Federal Reserve Board has done a great deal of work in this area, and that it might be used as a model concerning these issues.

One other area that we have not discussed is in trade negotiations with foreign countries. Our domestic trade investment issues are generally discussed by our Government across the board, but banking issues are not discussed because there is no way that the Federal Government can deliver on any kind of an arrangement with a foreign country.

For example, our discussions with the Canadians which ranged through a whole series of issues, as you are well aware, being from a border State, never touch on the banking issues because these aren't issues the Federal Government can deal with.

One of the problems with the present pattern is that we have very large economic issues and interests in the banking area which because of our regulatory pattern are outside of international negotiations. So there is something to be said for trying to work out a framework which would permit the Federal Government to deal with them as a competitive threat.

Senator McIntyre. Would you want to add anything?

Mr. Jessen. No.

Senator McIntyre. Well, moving on the same line, Mr. Smith, similarly, the allegation is made that the ability of certain foreign banks to maintain securities affiliates places them in a competitive advantage vis-a-vis U.S. banks.

On the other hand, it has been suggested that the magnitude of these securities operations are so small and are so structured as to be insignificant in terms of any meaningful advantage or disadvantage.

Could you comment?

Mr. SMITH. Yes; we would agree that they are small. And we are in favor of grandfathering them. We are not particularly concerned with the mas a competitive threat.

The fact is, though, that they are an activity in which we are not permitted to engage.

Does that answer the question?

Senator McINTYRE. As far as I am concerned.

Well, in view of that answer, how would you explain the fact that some of the largest U.S. banks involved in overseas operations testified in opposition to S. 958.

Mr. SMITH. I don't think this opposition is on the grounds of the securities business being insignificant. Certainly, I would expect they would be in favor of grandfathering these securities. I think their opposition to the bill is they don't feel that any legislation is needed at the present time to overcome this question of multi-State commercial banking or multi-State full service banking. I would say that the BAFT position on the securities activities is probably inconsistent with the position of the large U.S. banks in this area.

Do I make myself clear?

Senator McINTYRE. Yes.

Mr. SMITH. Our association is not opposed to continuing the present activities of foreign banks in the securities field. That is, who are already here. We simply believe that on the basis of equal treatment, the provisions in S. 958 make sense.

Senator McINTYRE. Many of the Fed bill's provisions fly in the face of a number of inquiries presently underway within this Banking Committee, such as regulatory restructuring, Glass-Steagall and branching.

Assuming this bill before us has merit, do you feel there is any sense of urgency which requires our addressing this bill now, rather than after we have had an opportunity to resolve these other very relevant matters?

Mr. SMITH. Yes, sir.

Senator McINTYRE. Is there a sense of urgency?

Mr. SMITH. Yes, sir.

The bill was a long time in the borning, if you will, and we think that it has come to the point where action is feasible.

On the other hand, it simply creates a climate of equal treatment. If subsequent to the passage of this legislation, there are more sweeping changes, they will affect foreign banks operating in the United States, just as they affect domestic banks.

So the passage of this legislation should not, I should think, interfere in anyway with any changes which come along at a later date.

Senator McINTYRE. Would you furnish for the record for my information in the order of their presence, those countries, (1) England; (2) Japan; (3) Roumania—I don't know how they go—list them. Would you do that for the record?

Mr. SMITH. Yes, sir. Will we be given this request in writing?

Senator McINTYRE. I gave you that one there. You make a note of that one.

Mr. SMITH. All right.

Senator McINTYRE. We have done pretty well here. There may be some questions that the staff may want to address to you later on, depending on how long we get through here.

I expect a vote any minute here; I have been lucky so far.

Are you gentlemen aware of any abuses by foreign banking affiliates under the present system which will require Federal legislation to correct? Are you aware of any abuses by foreign bank affiliates, such that Federal legislation should be enacted?

Mr. SMITH. No, sir, I am not.

Mr. JESSEN. No.

Senator McINTYRE. Why the use of a bank holding company as a vehicle? It would seem that the Bank Holding Company Act was devised to deal with a specific structure of bank and nonbank activity and not intended to provide the regulatory framework for the type of regulation being sought here.

If we were to decide that there were sound public policy reasons for establishing a Federal presence over foreign banking organizations, would we not be better advised, Mr. Smith, to do so in a separate statute designed specifically for the purposes intended?

Do you want that question again?

Mr. SMITH. No, sir. I think I have it.

I don't think it is a very easy question to answer. But the Bank Holding Company Act does seem to fit the bill here, in the sense that the major areas of inequality are multi-State banking and securities affiliates. That is to say, nonbanking activities.

And the Bank Holding Company Act does address itself to these activities; and by, it seems to me, a rather simple device, by calling a branch of a foreign bank a bank under the Holding Company Act, to bring it in line with the treatment of U.S. banks who would wish to engage in those activities.

It seems to me to be an appropriate vehicle.

Senator McINTYRE. Any additional comment?

Mr. FARMER. No.

Senator McINTYRE. If we were, as you suggest, to extend the dual banking system to foreign banks by means of a Federal chartering or licensing alternative, should this most appropriately be administered by the Federal Reserve or to more closely parallel the U.S. banking structure be administered by the Treasury or perhaps the Comptroller?

Mr. SMITH. Our membership hasn't given us any guidance on this question, Mr. Chairman.

Senator McINTYRE. Can't you speak for yourself? What is your opinion and not the opinion of the association, but your own opinion? You are a knowledgeable guy in this field, I hope.

Mr. SMITH. I am not sure.

Senator McINTYRE. Do you want to answer it for the record?

Mr. SMITH. I think that licensing by the Comptroller of the Currency might well be adequate. But I don't think there is anyone in the regulatory field who has as good a handle on international banking as the Federal Reserve Board has.

It, after all, does regulate now the foreign activities of American banks.

Mr. FARMER. Also I think it is true that the Board has a steady pattern of almost day-to-day discussions and contacts with foreign central bankers who are generally the regulatory agencies in their own countries.

So that just through that mechanism, the Board has certain advantages and familiarity with the whole system of international finance that might give it some advantage over other agencies.

Could I just add one other comment to this question of a Federal handle on this problem?

Some of our member banks in certain States are unable to enter certain foreign countries, because their State authorities don't permit foreign banks to come in for what may be perfectly legitimate reasons within that State.

The banking legislatures and the legislatures generally look at these questions on the basis of their own State needs.

Well, the result is that at the present most countries have to handle this on a State versus national government reciprocity basis. So that the banks in a particular State that doesn't admit foreign banks for its own domestic State purposes are, therefore, barred from going abroad.

And this also skews the ability of American banks to engage in international business.

And if the Federal Government could be the agency which could set the pattern of banking relationships with other countries, we won't have these unbalances between banks in certain States that can go abroad and banks in other States that cannot.

In other words, to a large extent, we are mixing interstate considerations with international considerations. And it is unique. There is no other form of commerce where we try to handle international activities on a State-by-State basis.

Senator McINTYRE. Does your support, Mr. Smith, for this bill imply that current State regulations of foreign banking activity is in any way inadequate?

Mr. SMITH. No, sir, I think in the respective States, certainly, in my limited experience, it is perfectly adequate. It is simply the quirk of there being no Federal authority in this field that foreign banks are able to deal with the several States.

Senator McINTYRE. Well, then the answer is there is no meaningful implication the State banking regulation is inadequate?

Mr. SMITH. No, sir.

Senator McINTYRE. You are proponents of the Fed's bill?

Mr. SMITH. That's correct.

Senator McINTYRE. I understand staff has handed you this rundown of seven or eight different ideas of what could be done to give the Congress a better handle. Have you had a chance to read it?

Mr. JESSEN. No.

Senator McINTYRE. Then I am not going to keep you here. I would like you to give us an answer for the record.

And with that, we will thank you all for your attendance and for your testimony here. It has been most helpful.

[The full statement of the Bankers' Association for Foreign Trade follows:]

STATEMENT OF

DOUGLAS A. SMITH

EXECUTIVE VICE PRESIDENT

BANKERS' ASSOCIATION FOR FOREIGN TRADE

ON S.958

BEFORE THE UNITED STATES SENATE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

JANUARY 29, 1976

My name is Douglas A. Smith and I am the Executive Vice President of the Bankers' Association for Foreign Trade. I am also Senior Vice President of the Industrial National Bank of Rhode Island and have been a full-time practicing banker for over 25 years. I am accompanied by Mr. Jack R. Jessen, Chairman of the Association's Committee on Foreign Banking in the U.S., who is also Vice President of the National City Bank, Cleveland, and by the Association's Counsel, Thomas L. Farmer, of the Washington law firm of Prather, Seeger, Doolittle, Farmer & Ewing.

The Bankers' Association for Foreign Trade (BAFT) was founded in 1921 by a number of inland banks for the purpose of expanding their knowledge of international trade, and promoting and fostering sound international banking and foreign trade. Today BAFT's voting membership of 140 U.S. banks consists of banks in 56 cities located in 32 states, the District of Columbia and Puerto Rico, and includes almost every U.S. bank which has a significant international operation. The Association also provides non-voting membership to 68 foreign banks with operations in the United States.

We are especially pleased to be testifying before your Committee today since the Association considers the questions under consideration among the most important in international banking -- issues to which the BAFT has given a great deal of thought and discussion for a long time.

As far as we know, the Association was the first organized group among the banking profession which made a systematic study of this issue by publishing three years ago a comprehensive report describing and analyzing the activities of foreign banks in the U.S. Since that time the Association has devoted a significant part of each of the last three Annual Meetings to a detailed discussion of this subject. At the Policy Committee meetings, as well as the plenary sessions of these Annual Meetings, the membership has considered various aspects of foreign bank activities in the U.S. Prior to the last Annual Meeting, the Association polled the senior management of each of the 140 member banks for their individual views on this question. As a result the Association was able to arrive at a meaningful consensus on this subject. Throughout this period we have continued to work in this area through a standing committee presently chaired by Mr. Jack R. Jessen, Vice President, National City Bank of Cleveland, and have consulted with the Federal Reserve Board, the Treasury Department, and other agencies on a continuing basis. We have also had continuing discussions with our associate members in the foreign banking community.

Basic to our position is our desire for a legal framework based on the concept of national treatment under which foreign banks would have the same right to compete in the United States market as domestic banks and would be subject essentially to the same laws and regulations. With the exception of the proposals for mandatory Federal Reserve and FDIC membership, the overwhelming majority of the Association's members support the legislation proposed by the Federal Reserve Board and introduced by Senator Proxmire as S.958. We are therefore pleased to have this opportunity to appear before your Committee in broad support of S.958.

In recent years American banks have come to play an increasingly important role in the financing of world trade. During the past decade the American business community has derived a greater portion of its profits from overseas activities than ever before. This has led to the creation of additional export related job opportunities here in the United States, both in the form of direct sales and services to foreign buyers of U.S. produced goods, as well as increased inter-company sales to overseas affiliates and subsidiaries. An increasing proportion of the U.S. GNP is directly related to international commerce.

The American banking community has long recognized the need for satisfying the ever expanding world-wide financial requirements of U.S. business. Consequently, U.S. banks have followed their corporate customers abroad to provide the same banking facilities world-wide that have been expected of them here in the United States. In doing so the American banking community has followed the example of the more established European trading nations which created global banking networks in the late 19th and early 20th centuries.

The expansion of U.S. bank activities abroad has not only been a direct result of the above mentioned world economic conditions, but is also a consequence of the recognition by the managements of American banks of a basic need on the part of the U.S. business community for competitive banking facilities in the countries where it was conducting profitable operations that would ultimately accrue to the benefit of the American public. The presence of U.S. banks overseas assured orderly access on the part of American corporations to world capital markets.

Conversely, it is only natural that foreign banks would join their customers in the U.S. market.

Major direct investments by European and Japanese companies in the U.S. market came some years after the rapid growth of U.S. corporate investment in Europe and Japan during the 1960's. Similarly, the most rapid expansion of foreign bank activity in the U.S. has come during the past 3 years. During this period the number of foreign owned banking institutions almost doubled while their total U.S. assets more than doubled. It is hardly surprising, therefore, that the American public, the bank regulatory agencies and the Congress have taken a new and more vigorous interest in this phenomena.

Our view is that this interest is valid and welcome but that any Congressional action should give full account to the public benefits which flow from the entry of these foreign institutions into our financial markets.

Among the benefits to the American economy are the increased entry of foreign firms facilitated by the assistance which many of these firms have received from banks of their own nationality. Many of these firms have entered the U.S. market in order to manufacture here, thereby increasing U.S. employment and often adding new technology as well. The foreign firms who have come here often blaze trails for other foreign firms, thereby producing still more employment.

Some of the foreign banks have also entered the retail market, thus increasing the competitiveness of that market and benefiting the American consumer. For some of the U.S. corporate customers who are active in certain specialized export markets, foreign banks have been able to provide special services based on their specialized knowledge of local markets, particularly in less developed countries, where they have been longer established and are consequently more expert than U.S. banks. All in all, the entrance of foreign banks has strengthened and diversified our financial markets and thus has generally benefited the American economy.

The American banking community has not asked for, nor expected, preferential treatment abroad, but supports the concept of mutual non-discrimination among U.S. and foreign banks. To demand more would be unrealistic and not in the spirit of the free enterprise system; to demand less would be a dis-service to the American business community and ultimately the American public.

Nevertheless, it is also true that at present there is virtually no Federal regulation of foreign banks, that they are subject almost exclusively to state laws, and that this has led to unevenness of treatment, particularly with respect to multi-state banking, securities and investment banking activity, reserve requirements, deposit insurance and ease of entry into U.S. markets. A large majority of the BAFT membership believes that there is a present need for Federal legislation which will preserve for foreign banks the right of access to U.S. markets while simultaneously ensuring equitable treatment with U.S. banks.

In line with that objective we favor the approach suggested by S.958 whereby a foreign bank proposing to enter the U.S. market could select a base state of operation and then have a choice of either a Federal or state charter. This approach is consistent with the basic principles of the dual banking system. We also favor the proposal that a foreign bank would then be permitted to expand within its home state in a manner consistent with state and federal law, and furthermore would be granted authority to expand its activities into other states through the ownership of Edge Act Corporations. With respect to any future liberalization of inter-state banking, foreign owned banks should be afforded the same privileges and be subject to the same restrictions as may apply to domestic banks.

U.S. banks operating overseas do so primarily through the establishment of branches rather than subsidiaries or other separate legal entities. Depositors of U.S. banks

operating abroad derive greater confidence from dealing with a branch of a U.S. bank as opposed to a subsidiary with a legally specified but limited capital. Since the branch entity is the primary method utilized by U.S. banks operating abroad, it follows that it would be contradictory for U.S. legislation to discourage the use of this entity for foreign banks operating in the U.S. We therefore also strongly support the proposal in S.958 that foreign banks be allowed to operate in this country either through a branch or a subsidiary.

Furthermore, we favor the proposals in S.958 that foreign banks should be permitted to accept deposits from the general public, through branches as well as subsidiaries. To prohibit branches from accepting deposits would violate the spirit of equal national treatment. Federal deposit insurance should be available to foreign-owned banks, including branches, especially those which engage in retail banking activities.

With respect to underwriting of securities, foreign banks entering our markets should be restricted to those areas open to U.S. commercial banks and should be prohibited from holding equity investments directly in commercial companies, except to the extent permitted to U.S. bank holding companies under the Bank Holding Company Act of 1970 and restricted to those lines of business which are described by the Federal Reserve Board as "closely related to banking."

Furthermore, foreign banks operating in the U.S. should be accorded the same range of activities and be subject to the same reserve requirements on deposits or other sources of funds, foreign or domestic, as domestic banks.

A major consideration for any legislation in this area is the treatment accorded to activities presently being carried on by foreign banks in this country which go beyond the authorities presently permitted to American banks in the domestic market. The extent to which foreign banks should be allowed to continue these non-conforming activities raises important questions concerning public policy for the U.S. both at home and abroad.

It is our belief that these questions should be viewed not in a narrow context but should be seen as an important element of foreign investment generally. The U.S. has for many years been the principal advocate of the benefits of foreign investment for both the recipient and the investing country. Many foreign countries have changed the rules for

U.S. investment in their country after such investments have been in place, and invariably the U.S. has argued that changing the operating rules for foreign investment after the fact has been detrimental to foreign and domestic commerce, and has urged that such changes be kept to a minimum. This broad principle with respect to foreign investment is sound and we urge that we follow this concept as well in the treatment we accord foreign investments in the U.S.

It is with this important principle in mind that we want to stress especially our strong support for the proposals also reflected in S.958 that non-conforming activities on the part of foreign banks be permitted insofar as these activities were in place as of a reasonable date, to be determined by ultimate legislation. We would urge that you consider applying this principle, generally known as "grandfathering," both to existing multi-state banking activities and to bank-owned security affiliates. The multi-state banking activities of foreign banks do not constitute a significant part of the commercial banking market in this country and do not represent a threat to fair competition, a risk to the soundness of the banking system, or constitute undue concentration of economic power. With respect to bank-owned security affiliates, we understand from the Federal Reserve Board that these activities do not constitute a significant part of the American securities market.

Before concluding my statement on this part of the legislation, we want to reiterate that we cannot conceive of a significant public interest that would be served by a decision to deny grandfathering to existing non-conforming banking activities by the foreign banks.

Before concluding, I want to amplify briefly on our previously stated reservations regarding the provision in the proposed legislation with respect to mandatory Federal Reserve and FDIC membership. The proposed required membership in the Federal Reserve System for all foreign banks with assets of more than $500 million is not truly in line with the principle of national treatment, although it is probably true that the domestic banks with whom the foreign banks are most directly in competition are generally Federal Reserve members. However, such membership for U.S. banks is optional and not mandatory.

More importantly, compulsory FDIC membership is not only discriminating but also largely irrelevant since most foreign banks in the U.S. do not accept deposits from the public.

It is our contention that this protection is important only in the context of retail banking activities, so that any legislation regulating deposit insurance should be focused on that aspect of foreign banking in this country. Protection for the general depositors and creditors of the branch of a foreign bank in the United States in the event that the parent institution became insolvent or otherwise went into liquidation or receivership abroad, might more appropriately be provided through regulations governing the proportion of branch assets which must be domiciled within the U.S. Similar regulations are contained in the statutes of several states governing the operations of foreign-owned commercial banking organizations within their jurisdiction.

In conclusion, Mr. Chairman, I want to reiterate that our Association after careful deliberation has concluded that the legislation before you represents a liberal and farsighted approach to a complex and very technical problem, and with a few changes such as outlined above, deserves the support of your Committee.

Senator McIntyre. We may very well think up some additional questions and send them to you for the record. But please be assured of our appreciation of your attendance here at the testimony.

We will recess until 9:30 tomorrow morning.

[Whereupon, at 3:22 p.m., the hearing was recessed, to be reconvened at 9:30 a.m., on Friday, January 30, 1976.]

FOREIGN BANK ACT OF 1975

FRIDAY, JANUARY 30, 1976

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
Washington, D.C.

The subcommittee was reconvened at 9:30 a.m. in room 5302 of the Dirksen Senate Office Building; Senator Thomas J. McIntyre, chairman of the subcommittee, presiding.

Present: Senators McIntyre and Stevenson.

Senator McINTYRE. The subcommittee will come to order.

This morning the subcommittee is concluding 3 days of hearings on the matter of regulating foreign bank activity in the United States.

Today's testimony should be some of the most helpful inasmuch as we will be hearing from representatives of the foreign banks which are themselves the subject of Federal regulation being sought.

So I am pleased to welcome at this time our first witness this morning, Lord O'Brien of Lothbury.

Lord O'Brien, you have had a distinguished career in international banking, finance and regulation, so the subcommittee looks forward with great interest in hearing your thoughts on this subject.

We appreciate very much your willingness to make this effort to come all the way from London to share your views with us.

I trust you will introduce your associates with you at the witness table.

STATEMENT OF LORD O'BRIEN OF LOTHBURY, GBE, PC EUROPEAN BANKING FEDERATION; ACCOMPANIED BY PAUL FABRE, FRENCH BANKERS' ASSOCIATION; AND ROLAND GIDDINGS, SECRETARY GENERAL, BRITISH BANKERS' ASSOCIATION

Lord O'BRIEN. Thank you very much.

If I may first of all introduce my associates, Monsieur Paul Fabre of the French Bankers' Association, and Mr. Roland Giddings, secretary general of the British Bankers' Association.

Senator McINTYRE. Welcome, gentlemen.

Lord O'BRIEN. I am president of the British Bankers' Association, a member of the Banking Federation of the European Economic Community.

This morning I am their authorized spokesman before you. You all know perfectly well that the European Banking Federation represents the banks in Belgium, France, Germany, Holland, Denmark, Italy, Luxembourg, Great Britain, and Ireland.

Those are the only banks which I represent.

You also know that I am a lifelong central banker. I spent over 46 years in the Bank of England and was governor for 7 years between 1966 and 1973. I think I can therefore claim to be a pretty experienced regulator of banks, and I therefore have sympathy with those who are concerned with the problems of regulation.

On the other hand, I am here this morning as a representative of commercial banks, and I am indeed their wholehearted advocate.

I have supplied a preliminary statement to the committee which with your permission I do not propose now to read in full. But if you will allow me, I would like to summarize the main points.

Before I do that, may I say how much I appreciate the privilege of being allowed to come and testify before this committee. It is a great honor, and I hope what I have to say will be of some help to you.

There has, as everyone knows, been a remarkable development in economic activity throughout the free world since the end of the Second World War.

And this great expansion which has been of benefit to all nations has been largely due to the enlightened policies followed by the U.S.A. who have always been insistent upon the maximum freedom in both trade and payments throughout the world.

This has benefited us all greatly.

This expansion of economic activity has, of course, required banking services to march in step with it. This has led to the great international expansion of banking.

Here again, the U.S.A. has been in the van. American banks have expanded internationally a very great deal, I think it is fair to say more than the banks of any other nation, although all national banking systems of any consequence have participated in this internationalization of banking.

How valuable that was I think was shown when we were faced not so very long ago with the enormous increases in the price of oil, then the financing problems for the consumer countries were enormously increased, and where I think one can claim that the international banking system rose to the challenge in a way which made it possible to meet those difficulties, indeed to overcome them.

They weren't entirely overcome by the banking system, but it played a very great part.

Therefore, I think in considering problems associated with the regulation of banks. what they may be allowed to do and where they may be allowed to do it, their value to the community, their increasing value, indeed the essential role which they play should not be forgotten.

Now, as to the very broad subject which your committee is considering which concerns, of course, financial institutions far outside the bank's system as such, that is something on which it is not for me to comment.

I am concerned only with what effect any new regulations which you may introduce will have on foreign banks operating in the United States of America.

I think it is fair to say that the foreign banks who realize that in some respects they have been allowed to do things which are not ordinaily allowed to domestic banks are content with the present position and hope that it won't be changed.

On the other hand, we all recognize that national authorities have an unquestioned right to regulate their own banking system in any way which they see fit.

Since all banking systems differ somewhat one from the other, it is natural that authorities should wish to regulate in a way which suits their system.

If you decide that your system requires new regulations, it would certainly be the hope of those I represent that any new regulations would be applied in a nondiscriminatory manner.

That is to say that foreign banks operating here will do so under the same terms as domestic banks. This is the objective in most countries. I think we can claim in Europe that it is largely achieved.

Mr. Gardner, in his testimony the other day, had an appendix in which an examination was made of such discrimination as there was among a number of countries including my own.

And I think the general conclusion was it was very little.

Perhaps at a later stage, I could comment on one or two examples of discrimination as they saw it in the United Kingdom, which I would question. But never mind that now.

I come back to the fact that we hope and strongly believe that anything new which you may introduce should be on a nondiscriminatory basis.

I am aware, however, that even if it is on a nondiscriminatory basis there will be nexus from the past. New regulations might now allow things which foreign banks have been doing in the United States of America up to date, for example, interstate branching which some do now, or the combination of deposit and securities business which some others do.

That those activities should be more restricted in the future, if you so wish, is obviously your perfect right to legislate for.

We do hope, however, that insofar as those activities have been developed in the past, they shall not be brought to a halt.

Many of the banks which work in the United States, foreign banks, have been here a very long time, as indeed have many American banks been in our countries a long time. Activities in which they are now engaged were entered into in good faith, not in any underhanded way, and a great deal of resources, of money, manpower, expertise, have been invested in them. And to terminate them possibly after a brief period would seem to us to be neither necessary nor very generous to those who have spent many years contributing to the banking diversity of the United States of America.

So that we hope that the permanent grandfathering with respect to those activities, which indeed, I believe, is proposed in the Federal Reserve bill, is something which you will be able to accept.

I believe there are precedents for such grandfathering for domestic banks with respect to other matters, and I hope those precedents may be of some guide to you.

In general, the Federal Reserve bill is one which, if it were to become legislation, would make the position of foreign banks in the United States of America not too uncomfortable.

We would feel that that was in general a fair method of dealing with the problem, if there is a problem.

There are one or two aspects of that bill which we would like to see amended. For example, the compulsory membership of the Federal Reserve System for foreign banks when it is not compulsory for domestic banks; the compulsory membership of the FDIC which seems to us to be somewhat irrelevant to our problem.

Those are really the main points that I have in mind to make on behalf of my colleagues: nondiscrimination and permanent grandfathering. There are a number of subsidiary points which I mention in the paper. I think I needn't talk any longer now, Chairman, and will be very happy to try to answer any questions you may care to ask.

Senator McIntyre. Lord O'Brien, as a former governor of the Bank of England you are perhaps most qualified to enlighten this subcommittee on the concerns expressed by some that enactment of this bill, that the Fed bill, would invite retaliation by the banks of those countries whose banks do business in the United States.

How do you view these allegations of possible retaliation?

Lord O'Brien. You postulate that, Chairman, on the basis that the Federal Reserve bill will be enacted. As I have said, in general the Federal Reserve bill seems to us to be fair, nondiscriminatory, and provide for permanent grandfathering which we wish to have.

Certainly, if legislation were enacted in that form, I can see no prospect of retaliation by our domestic authorities.

Senator McIntyre. Would your answer be different if we assumed there was no grandfathering?

Lord O'Brien. It wouldn't be much different. In its broad basis, that bill is nondiscriminatory. That is the most important thing. Discrimination would certainly lead to dismay, indeed, anger. Whether it would lead to retaliation would depend upon the circumstances in each of the countries which were affected.

So that, although we would very much regret the absence of permanent grandfathering, I would not say that it would lead to specific retaliation. It would, however, spoil the climate of opinion and do somehting to close up attitudes toward American banks abroad which would be prejudicial to the internationalization of the banking system, which as I say, we think has been beneficial to the system as a whole.

Senator McIntyre. Would you agree that the Federal Reserve does have a legitimate concern over the impact of foreign banking operations in this country on the conduct of domestic monetary policy?

Lord O'Brien. Certainly.

Senator McIntyre. If so, what would be the attitude of foreign banks in the United States to increasing the authority of the Federal Reserve over the reserves of foreign banks in this country short of mandatory Fed membership?

Lord O'BRIEN. I think that that would not be unreasonable. In the United Kingdom in the last 5 or 6 years, we have rejigged our monetary control system in relation to the banks and have brought a lot of banks specifically into it which weren't specifically in it before, including the American banks.

Secretary McINTYRE. On Wednesday of this week Deputy Secretary Gardner testified as to the matter of discrimination, or lack of discrimination encountered by U.S. banks in foreign countries. He summarized the situation as follows, and I quote:

> Basically, host governments seem to follow policies of nondiscrimination or national treatment toward U.S. and other foreign banks. This nondiscrimination is found both in laws and regulations and in administrative practices. The most noteworthy departures from national treatment reported by embassies are, one, the inability of U.S. banks in the U.K. to use the rediscount facility of the Bank of England or to have sterling paper qualify as an asset under the Bank of England reserve requirements, and second, restrictions on the importation of foreign management and staff by several countries, primarily, Italy, France and Switzerland.
>
> While none of these countries has prevented foreign banks from entering into competition with indigenous banks and retail banking, there does seem to be a tendency for host governments and the indigenous banking communities to consider that foreign banks should limit themselves to international and wholesale banking activities.

Would you comment? And please tell us where, in your opinion, U.S. banks are subject to discriminatory treatment to a greater or lesser degree in the various countries of Western Europe?

Lord O'BRIEN. May I start, Chairman, with a specific reference to discriminatory practices in the United Kingdom. I did mention that in my preliminary remarks. Thank you for the opportunity of commenting on it.

The remark made here about the inability of U.S. banks in the United Kingdom to use the rediscount facilities of the Bank of England arises from an incomplete understanding of our banking system. The rediscount facility of the Bank of England is open only to discount houses. They are special financial institutions peculiar to the London market which have the task of assuring the liquidity of the short-term money market. It is only they who can rediscount paper at the Bank of England. No bank can, no bank can rediscount.

So this is not a discrimination against American banks or any other bank in the United Kingdom.

Second, on the question of sterling paper, in order to insure the undoubted liquidity of the short-term money market, the only paper which the Bank of England will take by way of rediscount is government paper, Treasury bills, short-term bonds, or commercial bills of required maturity, but with two British names. They have got to be the names of people who can be pursued in the United Kingdom.

So that if paper doesn't bear two British names, it can't be accepted. That would be so whether it was put up by an American bank or by other banks. So I think I can claim that these accusations of discrimination are illusory insofar as the United Kingdom is concerned.

Now, going on about the rest of this paragraph, I am, of course, much less fully informed about the detailed practices in the other

European countries than I am about my own country. But the importation of foreign management and staff, some countries are more sensitive about that others, and I think it is a desire to see that the banking system, whether foreign-owned or not, is very substantially staffed by their own people and that an excessive number of foreign staff doesn't lead to difficulties in relations between banks.

However, I don't know anyone who would claim that that is a serious discrimination.

As to the last point about whether foreign banks should limit themselves to international and wholesale banking activities, yes, in the main, certainly in the past, that has been the wish, the feeling being that if foreign banks were to undertake too much domestic business of a retail character, then their relations with the domestic bank would be harmed and the whole system would become rather uncomfortable.

I may say that in recent years, certainly in the United Kingdom, the American and other banks have come more into the domestic system than they did in the past. I think I say in my paper that in fact, the American banks have something like 10 percent of all the United Kingdom domestic deposits, which is quite a large figure and certainly very much larger than the comparable figure for European banks in the United States of America. At least 10 times more, if not more.

Senator McIntyre. Would your associates like to comment on any of your answers, to add to or modify or oppose?

Lord O'Brien. Mr. Fabre might like to comment on this paragraph in relation to France.

Mr. Fabre. I believe that as O'Brien said for England, the comments about the limitations on American people working in French banks are not quite correct. We do have some law in France which seems to support Mr. Gardner's evidence but in practice this is never used for well-known banks seeking to establish themselves in France. American banks in France are able to have American management and I can say, since I know the American banks in Paris very well, that I have never heard of any difficulties for them in bringing in American management.

Thank you, Mr. Chairman.

Senator McIntyre. Well, good.

Getting back to you Lord O'Brien, it appears many large U.S. banks are generating more and more of their revenues from foreign banking operations. Is the same true of foreign banks operating in the United States and what general comparison may be drawn?

Lord O'Brien. I think that the proportion of their revenues drawn from abroad, by the major American banks who operate abroad, is very much higher than the proportion of revenues obtained from abroad by European banks who operate abroad and particularly in the United States of America.

The American banks are very big, indeed, in the international market, and I expect American banks' witnesses have told you how large a proportion of their revenues do come from overseas activities. In the case of European banks operating in America, the proportion I'm sure is very much smaller.

Senator McIntyre. In your opinion, have foreign banks seeking to do business in the United States encountered any particular problems as a result of being chartered and regulated by State regulatory authorities and how would you characterize the attitude of foreign banks in dealing with the various States in which they do business?

Lord O'Brien. Under your dual banking system the situation is pretty unique, with the States having authority over banks within their boundaries and with the Federal authority having a measure of general control also. In most countries you have to deal with one banking authority, not two. I am sure most banks would rather deal with one authority rather than two. But I am sure they accommodate themselves to the American situation and it certainly doesn't seem to deter them from wanting to come and do banking here.

Senator McIntyre. On page 9 of your statement you welcome the possibility of Federal chartering option. What advantage do you see to a Federal licensing or chartering option?

Lord O'Brien. I am sorry, Chairman, there was one expression I didn't quite understand, an option did you say, a chartering option?

Senator McIntyre. You seem to welcome the possibility under this bill we are discussing here today of Federal chartering option.

Lord O'Brien. Yes.

Senator McIntyre. Now, what advantages do you see to Federal licensing or chartering option? Do you see any advantages there?

Lord O'Brien. Well, again, that would be peculiar to the United States of America because you have got the two authorities. If the Federal Reserve system were to take over the authority from the States to license banks and to regulate them entirely, then you would have a system which was more similar to that which operates in European countries and in countries such as my own.

For the moment in the United Kingdom we don't have a licensing system at all, but we are about to introduce one. This is because we are engaged with our other European colleagues in trying to achieve a degree of harmonization of banking law and practice in the nine European countries, and the licensing of banks is a foundation of that new system of regulation.

Senator McIntyre. The question really is trying to drive at the fact that some foreign banks would really welcome an opportunity to be chartered at the Federal level, and in that way to have, say, one authority that would be applicable to all across the board.

There seems to be a thought that this would be a good thing as opposed to the present seven or eight states where the chartering provisions may very well differ.

Lord O'Brien. Yes. I suppose it is fair to say that the fact that you do have two separate types of regulating authority in this country has helped foreign banks to do business which under one authority they might not be allowed to do.

So to that extent, perhaps the fact that there are two types of authority is not unwelcome to them. But certainly, if there were only one authority at the center doing the regulating, they would find

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themselves in a situation similar to that in their own country and they could hardly complain about that.

Senator McIntyre. If the parallel were to be drawn to domestic banks, the Federal chartering option would carry with it mandatory Federal Reserve membership. Would this seem fair to you?

Lord O'Brien. If it applied to all banks.

Senator McIntyre. All national banks.

Lord O'Brien. Yes.

Senator McIntyre. Senator Stevenson.

Senator Stevenson. Thank you, Mr. Chairman.

Gentlemen, we are all grateful to you for your assistance to us in these hearings, and I regret that I wasn't here earlier, Lord O'Brien, to hear your statement. I will read it at the first chance.

I only have a couple of questions. If the only alternative to the legislation recommended by the Federal Reserve Board were no legislation at all, wouldn't you prefer that?

Lord O'Brien. I think we would be content to go along with things as they are, yes.

Senator Stevenson. So the support assumes that if the Congress doesn't take this action it may take other action that is even more restrictive, is that a fair statement?

Lord O'Brien. That is of course what we fear, the case for no action from our point of view is that when the wheels start turning, one doesn't quite know where they are going to stop.

Senator Stevenson. Well, if the wheels start turning now, which they are, we are still left with that possibility.

Lord O'Brien. Yes.

Senator Stevenson. Starting with the Federal Reserve proposal, this process could end up with something else.

Lord O'Brien. Certainly if Congress, in its wisdom, decided that there must be legislation in this area, we would be very unhappy if they finished off with legislation more restrictive than the Federal Reserve bill.

Senator Stevenson. Well, I share some of your concerns. In my own mind it is largely a tactical question, and perhaps the atmosphere is more propitious now than it will be in the future, because like you, I would not like to see the Congress enact legislation which was regarded as unfriendly or discriminatory abroad, and consequently incite retaliation or what you refer to as a poisoned climate.

I don't believe you have discussed at much length, the FDIC requirement in the so-called Mitchell proposal. If that requirement made a distinction between institutions engaged in wholesale operations on the one hand, and retail operations on the other and drew the line there, with mandatory FDIC insurance required only for those institutions engaged in substantial retail operations, would you have an objection?

Lord O'Brien. That would be obviously much less repugnant, because those engaged in wholesale operations do business on a large scale and would virtually get no protection, because if it is $40,000 per depositor, that wouldn't concern them.

Nevertheless, they would be paying the insurance presumably on the total of their deposits, which would be large deposits.

So in that case, it would be money for nothing. If it were restricted simply to those banks who engage in retail business on all fours with their domestic competitors, I think one would have less cause for complaint, provided that there wasn't compulsion which exceeded the compulsion on the domestic competitors.

Senator STEVENSON. Mr. Chairman, I don't have any more questions.

Senator McINTYRE. Lord O'Brien, for some reason the banks of the United Kingdom and Japan seem more interested in establishing retail banking operations in the United States than the banks of other countries.

Can you tell me why this is so?

Lord O'BRIEN. I can't with respect to Japan, Mr. Chairman.

Senator McINTYRE. Well, with respect to the United Kingdom?

Lord O'BRIEN. The United Kingdom, yes, of course, the largest British banks are retail banks. The five clearing banks, which are our large deposit banks in the United Kingdom are retail banks, and it is, therefore, natural for them to expand in the retail business, as indeed they have done in California and elsewhere. This is the kind of banking they know.

Senator McINTYRE. In your statement you dismiss mandatory FDIC insurance as being irrelevant to many of the operations of the foreign banks.

Much of the foreign banking interest in the United States has been more wholesale than retail. But, how would you view the growth of such activity in the future?

Will it stay more wholesale oriented, or will it be more and more inclined to retail business, in your opinion.

Lord O'BRIEN. I would suppose that where foreign banks in the United States are in the wholesale business, they will tend to remain in the wholesale business, and hopefully to expand in that area.

Where they are in the retail business, as you say, some British banks are, presumably their aim would be to expand in the retail business.

Senator McINTYRE. Can you please tell us what factors are relevant to a foreign bank's decision as to whether or not to seek the establishment of an agency, a branch, or a subsidiary?

What are the relative advantages and disadvantages of each?

Lord O'BRIEN. Well, I imagine that the decision in the first instance depends upon the degree to which they are prepared to commit themselves in the area where they are going. It might be wise to start off with an agency or representative office to feel the climate of the place and assess more accurately the prospects of being able to expand.

Then, after that, the choice between a branch and a subsidiary, well, again I think it depends upon what opportunities there are for expansion. In some cases those opportunities could be better realized by acquiring a subsidiary or setting up a subsidiary. In other cases, better by having a branch, as indeed American banks find in the United Kingdom as well.

Senator McINTYRE. Are the advantages and disadvantages just a matter of size of the operation?

Lord O'BRIEN. As between agency and the other two, yes.

As I say, when you are making up your mind how big a commitment you are going to make, the first thing to do is just to put a toe in the water, which you do through an agency or representative office.

But, as between a subsidiary or a branch, either could expand as much as the other. It is just a question of which is more suitable for the particular area in which one wishes to do business.

Senator McINTYRE. You, in your statement, strongly support the grandfathering provisions contained in this bill.

On the other hand, on page 4 of your statement you state that the appropriate time to consider the issue of foreign banking would be when a verdict is reached on the most important aspects of the broad subject.

By this I assume you mean financial regulatory restructuring, Glass-Steagall, and branching.

Assuming we were to follow your advice, and assuming that Congress decides to retain the present restrictions regarding securities operations of U.S. banks, why should we grandfather the security affiliates of foreign banks, particularly in light of your own admission on page 10, that the amount of securities business done by ECC banks in the U.S. markets is comparatively small?

If they are indeed that small, where is the great hardship in providing for divestiture?

Lord O'BRIEN. Chairman, they are small in relation to the total of business in the United States of America. That doesn't mean to say they are small in relation to the bank that undertakes it. I would claim that for each of those banks, the business which they are now allowed to do in the securities field is important to that bank.

When stating that it is small in relation to total activity of that kind in the United Statse of America, I am trying to make the point that if you allow it to continue, you are not prejudicing the position of the domestic banking system to any degree.

If I could go on, Chairman, about this question of grandfather, which I know is the subject about which many people say that they are fearful of the consequences of allowing unending grandfathering for the banks who are now doing types of business which would be restricted, under any new regulations, I do make the point in the memorandum that it is very small in relation to the total of banking.

I don't believe it could ever become so large as to be an embarrassment.

Second, as I say, in many cases it has been going on for a very long time, and first-class people in good faith have committed both their money, their expertise and their men to developing the business. It seems pretty unfriendly to decide after many years, perhaps, that they can no longer do it.

I was asked to consider whether there was anything which would make permanent grandfathering more palatable to those here who have to consider the regulation of foreign banking, and it seemed to me that there was a provision which might help in relation to grandfathering under the Bank Holding Company Act of 1956, which is extended to domestic banks in respect of their activities.

There is a provision which gives the Federal Reserve Board the right to require banks to divest themselves of an activity which

the Federal Reserve Board decides is against the public interest. I gather that this power has, in fact, been exercised several times.

Now to me, as an old Bank of England man, that would be the way I would check any undesirable consequences of permanent grandfathering. I would get the central institution to say to the house in question, you have gone too far, you must stop.

And with that sanction available, I would have thought one could accept permanent grandfathering with greater equanimity.

Senator McINTYRE. In a letter submitted for the record, the Comptroller of the Currency states the following, and I quote:

> My impression is that foreign banks, like our own, are taking a hard look at balance sheet considerations and, therefore, considerable expansion by foreign banks in the U.S. is unlikely in the year ahead.
>
> These balance sheet considerations will operate as a natural governor to major foreign bank expansion in the U.S. in this year of 1976.

Do you agree?

Lord O'BRIEN. I do.

Senator McINTYRE. The gentleman from France, do you agree?

Mr. FABRE. Excuse me, Mr. Chairman, I did not understand the question, so my friend translates.

[Pause.]

Could you summarize the question very shortly?

Senator McINTYRE. We are concerned, somewhat, with the rapid growth of foreign banking in the United States.

The Comptroller says that foreign banks, the same as U.S. banks, are taking a hard look at their balance sheets, their profit and loss, and, therefore he predicts that 1976 will be a year when foreign banking will level off, will not continue to grow in the United States, but will level off this year in 1976.

Do you agree?

Mr. FABRE. Yes.

Senator McINTYRE. Good enough.

Now, Mr. Weber here, distinguished counsel we have, wants to ask you a question, Lord O'Brien, so I am going to turn the microphone over to him.

Mr. WEBER. Lord O'Brien, I apologize. I am not sure I can properly state the question, but I hope I will come close enough that you will understand.

In previous conversations with some of your former colleagues at the Bank of England, I have been informed that there is underway at the present time, a reassessment by Central Bank Governors, perhaps by members of the Finance Ministries or others, I am not sure, of the rules governing foreign bank activities among the various member states of the EEC.

At one time I was led to believe this might even give rise to an amendment to the Treaty of Rome, I don't know.

Have you been privy to these discussions?

What can you tell us about what is going on in Europe concerning the rules by which foreign banking would be governed within the rules of the EEC?

Lord O'BRIEN. I can't imagine that would be an amendment to the Treaty of Rome with respect to foreign banking in the EEC, and certainly I am not privy to any discussions taking place on

the subject ,and I would doubt very much whether such discussions have been taking place.

As a member of the Banking Federation, I am in close contact with the Brussels Commission, which is responsible for study of banking harmonization and all the regulations to affect banking in the EEC.

Certainly there we have had no indication that this special subject is under construction. I would very much doubt it.

Of course, as so often in these matters, one gets a story which becomes slightly distorted. The end result looks very different from what the original person had intended.

It is perfectly true that with the troubles which we have been through in the last 2 years, the Central Bank Governors have set up a committee, the chairman of which is a Bank of England man, to consider the dangers involved in foreign banks operating in their own countries. And as you know, I expect, the Governor of the Bank of England has asked all the head offices of banks, not only American, but every foreign bank operating in London, to send him a letter accepting moral responsibility for the business undertaken by those banks in the London market.

This is to protect him if any of those banks should fail and money should have to be provided to prop them up. Then, it is felt that the head office should bear the ultimate responsibility.

But this is merely a system designed to help the banking System remain healthy and strong. It is not a system designed to restrict the activity of the banks.

Senator McINTYRE. Senator Stevenson, do you have any questions?

Senator STEVENSON. You said citizenship requirements for directors of national banks remain much stricter than in most countries in the European Economic Community.

How would you suggest we liberalize such requirements?

Lord O'BRIEN. All I would point to is the fact that our much more liberal attitude in this particular field is one which we have had in our various countries for many years and it hasn't redounded to our disadvantage. We feel you could be equally liberal in this respect without disadvantage to yourselves.

Senator STEVENSON. What is the provision in the EEC case?

Lord O'BRIEN. No citizenship.

We are concerned with the competence of bankers. We are much less concerned with their nationality.

Senator STEVENSON. Mr. Chairman, I don't think I have any more questions.

Lord O'Brien, you have answered just about every question there is to ask, at least that I can think of.

Thank you.

Senator McINTYRE. Lord O'Brien, to you and your associates our deep thanks and appreciation for your being here with us this morning, giving us the benefit of your counsel on this problem, this question of foreign banking in the United States.

I thank you all and I must say at this time that I think I neglected to say that your statement will be included in the record in its entirety.

[Complete statement of Lord O'Brien follows:]

NOT FOR RELEASE UNTIL A.M. FRIDAY, 30TH JANUARY 1976

EVIDENCE PRESENTED BY

THE RT. HON. LORD O'BRIEN OF LOTHBURY,

PRESIDENT OF THE BRITISH BANKERS' ASSOCIATION
AND AUTHORISED REPRESENTATIVE OF THE E.E.C. BANKING FEDERATION

TO

THE FINANCIAL INSTITUTIONS SUB-COMMITTEE OF
THE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE OF THE
UNITED STATES SENATE.

------oOo------

I much appreciate the opportunity and honour of appearing before this distinguished Sub-Committee. I do so, not only as the President of the British Bankers' Association, but also as the authorised spokesman for the E.E.C. Banking Federation and thus for the commercial bankers' associations of each of the countries of the European Economic Community. My purpose is to present to you the views of the European banks on the proposed legislation affecting foreign banks in the hope that this will help Congress to reach decisions which are harmful neither to European banks operating in the U.S.A. nor to American banks operating in Europe, nor to the U.S. banking system.

As we look back over the years since the second World War we find, in the liberal economies of the Western World, a remarkable, and indeed unprecedented, development of open economic activity and along with it banking and financial activity on an international scale. The potent and enlightened impulse for this came from the wise and far-reaching policies of the United States after that War. As part of this process, we in the City of London and our colleagues in other major European cities, have welcomed the entry there of the American

banks and we consider that this influx of expertise, imagination and management skills has immeasurably strengthened our own capital markets. In a much more modest way, some of our own European banking institutions have sought to establish themselves in several of your Cities and States, certain of which have, in fact, encouraged this development in the hope that it would add to the financial and competitive strength of your own capital markets. It seems to me, and to my colleagues in the European Community, that the great expansion of international banking in the last ten or fifteen years is one of the notable developments in the financial field in the post-war period. I have no doubt at all in my own mind that, although this expansion has brought its problems - and these are the almost inevitable accompaniment of large structural changes, especially if achieved over a comparatively short time span - the effects have, on balance, been very substantially favourable. It is impossible to believe that the rapid expansion of world trade during the post-war years could have been sustained over such a long period if the financial structure had not grown to accommodate the additional requirements. Nor can I see how the financing problems resulting from the quadrupling of oil prices at the end of 1973 could have been overcome without much greater stress if the enlarged and increasingly sophisticated mechanism of the world's banking and capital markets had not already been in place.

It is not my purpose today to dwell upon these developments, but only to refer to them because of their undoubted relevance as

background to the legislation before you. This being so, I need to draw your attention to only two aspects of the expansion of international banking which have, I think, a particular bearing upon what we are discussing. First, most of the major national banking systems have shared in this expansion. Perhaps not unexpectedly, American banks have increased their presence abroad more rapidly than foreign banks have moved into the United States. For example, there are now over four times as many American banks in London as British banks in the United States; American banks also operate widely elsewhere in the European Community, the other Member States of which together have 28 banks only in the United States. Figures available indicate that about 10% of all U.K. domestic deposits are held by American banks and that they hold about 25% of the total deposits of the whole U.K. banking market - sterling and foreign currency deposits. As a result, many of the major American banks now derive a substantial proportion of their profits from their foreign business; at the same time their overseas deposits provide them with large amounts of additional resources which are available for domestic as well as foreign customers.

The second point about the development of international banking is that, despite the great expansion of recent years, it is by no means entirely a modern phenomenon. One of your banks opened an office in London as long ago as 1887, and one of the London banks has been operating in New York for the past 73 years. The interchange with other European centres started a little later, but also goes back

for some decades.

From the European Community we observe, with considerable interest, the far-reaching debate that is presently unfolding in the Congress, and beyond, regarding possible changes thought to be desirable in various sectors of American banking and finance. Whilst we are not being asked to, and of course cannot, comment on this broad topic, we are naturally interested as foreign bankers participatin in the U.S.A. in how discussion develops. As regards foreign banking in the U.S.A., it would seem that any problems it may pose are minimal compared to the larger issues that we understand are presently being studied. It seems to us, therefore, that the appropriate time to consider the issue of foreign banking would be when a verdict is reached on the most important aspects of the broad subject.

In anticipation of that moment, however, it may be useful for me now to emphasise some points which we as European bankers consider to be of great importance if we are to have a fair and adequate opportunity to exist and compete in the great capital markets of your economy.

That is the main purpose for my being before you today and, if I correctly understand the sense of your invitation, I should like now to direct my comments to the proposals contained in the Foreign Bank Bill.

Nothing I have said so far about the expansion of international banking or the length of time for which some institutions have been

established abroad is in any way intended to question the right of the authorities in a particular centre to regulate banking operations within their territory. On the contrary, I strongly believe that a judicious degree of official supervision and control is indeed helpful for the system as a whole. Clearly, however, the existence of a substantial international element within the banking system must mean that other countries are affected by the methods which are used.

Given such international ramifications it seems to me to be both desirable and necessary to ensure that the regulations in all countries are strictly based on the principle of non-discrimination. By this I mean that, although it is right and proper that foreign banks should be subject to the same obligations, limitations and controls as domestic banks, it is also important that they should not be subject to any harsher requirements than, or denied privileges available to, domestic banks.

I take the view that the eventual aim of foreign banking legislation in all our countries should be the attainment of reciprocity. Thus banks of country A setting up in country B would receive there the same treatment as that given to banks of country B when they go to country A. Within the European Community we are moving towards this position and a directive on banking regulations now under consideration and likely shortly to be adopted provides for reciprocity between banks of the nine Member States. Furthermore, it stipulates that European branches of financial institutions having head offices

outside the Community may be given identical treatment throughout the Community.

Of course, given present differences in national,social and economic policies and in banking habits and structures, one has to accept that full reciprocity requires greater similarity between regulatory systems than exists at present. Nevertheless, I suggest that it is as well to keep the objective in view when providing for more immediate contingencies, in order to avoid needlessly hampering the achievement of the ultimate goals. We feel strongly that it will be a retrograde step for legislation to be introduced in the United States which would obstruct the achievement of this long term aim. It could not be in the interest of the United States or the European Community if new legislation affecting foreign banks operating in the U.S. were to result in the adoption in Europe of policies which were restrictive to U.S. banks operating there.

In summary, therefore, it seems to me that, to take reasonable account of the much closer integration of international banking that now exists, legislation should

(a) take account of the interdependence of national banking systems;

(b) allow for the continuation of existing operations, which foreign banks already established in the host country - sometimes for many years - have developed in accordance with the present statutes or regulations;

(c) be firmly based on the principle of non-discrimination as between domestic and foreign banks;

(d) do nothing to obstruct progress towards the long-term goal of reciprocity.

Whilst naturally we feel somewhat concerned at the effects the introduction of new legislation might have on the activities of the banks I am representing, we recognise that the Foreign Bank Bill, in its present form, contains a number of reasonable and fair-minded measures intended to meet the objectives which, as I have just explained, we see as desirable.

In the first place, we accept that the authors of this Bill have been fair in their attempt to reconcile the existing operations which foreign banks conduct in more than one State with the general aims of U.S. banking law and regulation. It is undeniable that foreign banks already operating in the U.S.A. are at present able to conduct a full range of domestic banking business in more than one State. But I should stress that the foreign banks which have taken advantage of this opportunity have done so in no under-handed way and in accordance with prevailing State and Federal statutes and regulations; nor, I believe, would any of the regulatory agencies concerned complain of any lack of co-operation from those banks. The scale of their operations and competitive advantage has not been at all significant in relation to the scale of operations of the domestic banks. In these circumstances, I suggest that the only equitable solution is to allow the foreign banks concerned to preserve their

existing operations by permanent "grandfathering", so long as so-called multi-state banking is forbidden to U.S. banks. I note that there are U.S. domestic precedents for what is proposed. To require foreign banks to undo what they have legally done would, in our view, not only not take account of the interdependence of national banking systems but could also, because of the losses that might well be involved, bring another element of unwelcome instability to a not entirely stable world.

Secondly, we recognise that the Foreign Bank Bill does represent a significant attempt to achieve the non-discriminatory system which we believe essential. The attempt has, in our view, not been entirely successful and we do have one or two reservations. These apply mainly to the provisions requiring membership of the Federal Reserve System for all foreign banks with assets of more than $500 mn. Even though it is probably true that the domestic banks against which foreign banks are in most direct competition are for the most part Federal Reserve members, those which are State-chartered do not have to be and thus have the opportunity to reduce their costs. The U.S. banks have an option which is to be denied to foreign banks. However, I understand that there are already proposals before Congress under which the FRB's reserve requirements would be extended to all State-chartered banks. If those proposals were adopted, the problem would, of course, no longer arise.

Compulsory membership of the Federal Deposit Insurance Corporation could also be said to be discriminatory - and is, indeed, irrelevant

for many of the operations of foreign banks.

As to the other conditions for entry of foreign banks, we would not wish to object to the new requirements for licensing. In some other respects - the proposals concerning Federal branches and the ability of foreign banks to obtain a national charter and to own an Edge Act corporation - the Bill introduces an additional flexibility which is to be welcomed. I should point out in passing, however, that the citizenship requirements for directors of national banks and Edge Act corporations remain much stricter than in most countries in the European Economic Community. There is also the point, which I hope can be corrected, that the provisions for Federal branches (in sub-section (a) of Section 18 of the Bill) require that the parent bank has to be a "corporation or similar organisation", which appears to mean that banks established as partnerships - as some European banks are - would not qualify.

I turn now to an area in which differences of banking practice between the U.S. and most E.E.C. countries are particularly sharp - the question of the securities operations (both in trading and underwriting) of commercial banks. In the U.S. the Glass-Steagall Act provides for the separation of deposit-taking from securities business and the Banking Associations which I represent accept that it is reasonable that foreign banks in the U.S. should be made subject to the same provisions. If, however, as I believe is now being contemplated, changes should be made in the Glass-Steagall Act at some future date, those changes ought also to apply to foreign banks. Meanwhile, as with multi-state banking, the European banks feel

strongly that their existing facilities for engaging in securities business in the U.S. should be preserved in permanent "grandfathering" and are pleased to note that this is provided for in the Foreign Bank Bill. In this connection, perhaps I do not need to remind the Committee that the amount of securities business done by E.E.C. banks in the U.S. market is comparatively small. Although fully comparable and detailed figures do not exist for all the E.E.C. banks, it is clear that total turnover in U.S. securities by E.E.C. banks on behalf of both U.S. residents and foreign customers amounts to no more than 0.05% of the total U.S. market. Similarly, underwriting operations by this group of banks account for less than 1% of the U.S. total.

There is one further point in the area of non-banking activities which I would like to mention. In parts of Europe as you are no doubt aware, banks traditionally become involved in the ownership of the equity of their non-financial customers in a way which they do not in this country - or for that matter, in my own. The present Bill provides that such of these links as now exist among foreign banks already operating in the U.S. should be allowed to continue permanently. This is acceptable, of course, as far as it goes but does not seem to allow adequately for future developments in such relationships outside the U.S. Because foreign banks' branches and agencies would, under the new proposals, become subject to the Bank Holding Company Act, it would appear no longer to be possible for a European bank which, say, holds a "controlling" share

(as determined by the Board of Governors under the Bank Holding Company Act) in a manufacturing concern with a subsidiary in the U.S. to open a new branch or subsidiary in the United States. We understand and accept the U.S. reason for limiting very closely the types of non-banking business in which banks may become involved within the U.S. and the banks which I represent are not seeking to argue against the spirit of these provisions. On the other hand, we are dealing, as I have already said, with national banking structures very different from the one prevailing in the U.S. The operations of some European banks could be seriously prejudiced if they were required to conform to the existing regulations applying to Bank Holding companies. I do not believe that there are likely to be many instances where difficulties would arise and I am inclined to think that they would best be dealt with on an ad hoc basis, by consultation with the Federal Reserve Board. If that view is accepted it would probably be useful to include provisions to this effect in the Foreign Bank Bill.

In conclusion, Mr. Chairman, may I say again that the Banking Associations I represent recognise that, on a subject which is at one and the same time technically complicated and socially significant the legislation before you makes a sincere attempt to combine reasonable changes with a practical regard for the many problems involved. I hope that you will accept that my remarks, and the suggestions put forward here, are similarly motivated. May I

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conclude by thanking you and your colleagues for hearing me so courteously and wish success to your endeavours. I stand ready to answer any questions which you may have either in relation to my statement or to any other matters arising out of the Foreign Bank Bill.

------oOo------

Senator McIntyre. With that, I will thank you and hope to see you some day in London.

Lord O'Brien. Thank you very much, Mr. Chairman.

I have very much enjoyed being with you. We hope we have given you some help and we wish you success in your endeavor.

Senator McIntyre. I am sure you have.

Thank you.

The subcommittee calls as its next witness Mr. Steuart L. Pittman, counsel to the Institute of Foreign Bankers, Shaw, Pittman, Potts & Trowbridge, Washington, D.C.

I would appreciate it if, Mr. Pittman, you would introduce the various members of the panel.

STATEMENTS OF STEUART L. PITTMAN, COUNSEL, INSTITUTE OF FOREIGN BANKERS, SHAW, PITTMAN, PITTS & TROWBRIDGE, WASHINGTON, D.C.; PAUL E. HOLLOS, PRESIDENT, INSTITUTE OF FOREIGN BANKERS AND PRESIDENT, AMERICAN SWISS CREDIT CORP., NEW YORK CITY; GEORGE R. BITTERLY, VICE PRESIDENT, INSTITUTE OF FOREIGN BANKERS AND SENIOR VICE PRESIDENT, BANK OF TOKYO, LTD., NEW YORK CITY; MARIO R. de LUCA, VICE PRESIDENT, INSTITUTE OF FOREIGN BANKERS AND EXECUTIVE VICE PRESIDENT, BANCO DI ROMA, NEW YORK CITY; AND EIZO TAJIMA, TRUSTEE, INSTITUTE OF FOREIGN BANKERS AND MANAGING DIRECTOR AND AGENT, SANWA BANK, LTD., NEW YORK CITY

Mr. Pittman. Thank you.

Mr. Chairman, we are going to rush through separate summaries by each of the five of us. We will, to save time, each identify himself more fully. Mr. Hollos is the president of the institute. He is our leader here and will start off.

As he finishes he will identify the next witness, if that is all right with you.

Senator McIntyre. All right.

Mr. Hollos, we are glad to welcome you here.

Mr. Hollos. I would just like to apologize for a somewhat unusual attire I have to appear with. I had an accident slipping on an icy sidewalk in New York a few days ago and my arm is still immobolized. So I beg your pardon.

Senator McIntyre. I am very sorry.

Mr. Hollos. Mr. Chairman, members of the committee, I am Paul Hollos, president of the Institute of Foreign Bankers, and chairman and president of American Swiss Credit Corporation. We wish to thank you sincerely, Mr. Chairman, for the invitation to testify.

The institute membership includes 71 subsidiary banks, branch banks, and agencies of foreign banks from all parts of the world directly affected by the issues before you.

The total institutional membership is 116, the remainder consisting of representative offices.

The number of banking offices in the United States represented by this membership includes the vast majority of the 175 foreign bank offices making up the Federal Reserve Board statistics we are all using.

Governor Mitchell's statement before this subcommittee gave three reasons why new legislation is needed now: (a) Foreign banking in the United States has grown rapidly in the last 2 years; (b) the patchwork system of bank regulations in the United States results in differences in regulatory treatment of foreign banks and domestic banks; and (c) regulation of foreign bank offices in the United States is more appropriate under Federal than State administration.

In a few words, our response is: (a) That the U.S. growth of foreign banks has conformed to world economic trends and remains low relative to expansion of U.S. banks abroad; (b) that the present regulations, whether it be chaos or healthy diversity, is an integral part of bank regulation in the United States, creating many regulatory differences or advantages among domestic banks, and provides no justification for singling out a few selected differences in foreign bank treatment for correction when neither domestic nor foreign banks complain of any impact from unfair competition; and (c) that the proposed elaborate federalization of foreign bank regulation serves no clearly defined needs, trading in a system which has proved workable for many years for one which would increase the cost of doing business and create years of uncertainty as new administrators come to grips with unforeseen problems.

S. 958 and similar proposals are not the product of complaints from injured domestic banks about the regulation of foreign banks; they have their main impetus from the Federal Reserve Board's accelerating efforts toward centralizing and federalizing of bank regulation.

We all subscribe to the generalization that bank regulations should not give unfair competitive advantage to either foreign or domestic banks.

We also agree that foreign bank activities in the United States should not impair the administration of monetary policy.

The main witnesses before the House FINE hearings last month produced no evidence of such unfair competitive impact or that monetary policy has been impaired.

It appears to us that bank regulators, including the Federal Reserve Board, and our domestic bank competitors are generally in agreement that foreign banks are not causing any such adverse effects at this time.

The presumably objective recent Commerce Department report to Congress on the status of foreign investments contains comments consistent with this view.

We urge that a present, not a future, necessity should be established at these hearings to justify any such far-reaching legislation.

There is another good reason why the Federal bill, S. 958, may be premature.

The need for, and nature of, any change intended to achieve equal treatment will be more readily perceived after disposition of propos-

als pending before Congress which may change the comparable treatment of domestic banks with respect to the three most critical issues of S. 958: multistate banking; mandatory universal Federal RESERVE System membership; and Glass-Steagall policy.

New York, California and, within the last 2 years, Illinois are the main States attracting foreign banks. These States are motivated to augment and protect the roles of their leading cities as international financial centers.

With minor exceptions, foreign banks and the other 47 States have shown little interest in each other.

Foreign banks in the U.S. financial centers pursue primarily a wholesale banking business incidental to their international activities.

Thus, with a few exceptions, they compete in the wholesale market only with the large big city domestic banks for the business of depositors and borrowers in their home countries or their U.S. subsidiaries and for the business of the United States-based multinational corporations.

The exceptional foreign entry into retail banking has been successfully pursued almost entirely through a State-chartered subsidiary branching within its State. They are already regulated in essentially the same manner as domestic banks. They are limited to a single State.

These subsidiaries are owned by registered bank holding companies and submit to the nonbanking prohibitions of section 4 of the Bank Holding Company Act. They carry Federal deposit insurance.

Thus, retail banking in the United States by foreign banks is not significantly affected by most of the changes proposed in S. 958.

The agencies of foreign banks are not depository institutions. They exist only under New York and California laws which deny them access to the deposit market and do not permit them to act as fiduciaries. They are not banks within the meaning of the Bank Holding Company Act and other Federal banking laws.

The issue of competitive advantage may welcome down to the treatment of foreign bank direct branches—without an intermediate State subsidiary—in the only two States where they exist in significant numbers, New York and Illinois, which has successfully promoted downtown Chicago as a site for foreign bank branches restricted to one location.

In conclusion, we would not oppose any legislative changes creating new rules applying equally to domestic banks as well as foreign bank offices.

We agree with the principle of equal treatment but find the Fed bill discriminatory in many respects.

Thank you very much.

May I now call on the next witness, Mr. de Luca.

Mr. DE LUCA. Mr. Chairman, I am Mario de Luca, vice president of the Institute of Foreign Bankers and executive vice president of Banco di Roma in New York.

I will address my remarks to the multi-State activity of foreign banks in the United States which starts at page 22 of our statement.

Existing law and practice effectively limits foreign banks seeking to compete in U.S. retail markets to the same one-State restrictions as apply to domestic banks. Retail banking can best be done by foreign

banks through subsidiaries which branch within one State. They are subject to section 3(d) of the Bank Holding Company Act, which restricts banking in any secondary state except as expressly authorized by a statute of that State.

The multi-State banking issue, therefore, relates solely to the wholesale banking market.

Domestic banks are generally restricted from full-line deposit bank branching outside their principal State. However, this by no means prevents them from vigorously competing in the wholesale banking market and the market for financial and other services related to banking.

This opportunity takes various forms which, put together, make up a formidable capability—loan production offices; operating nondepository subsidiaries; grandfathered multi-State holding of banks by bank holding companies; multi-State closely related activities of bank holding companies; and Edge Act corporations.

The combined effect of these multi-State activities, as reported in an American Banker's continuing series, can be summarized as follows: 12 domestic banks have 1,550 offices, other than their home State branches, in up to 34 States. By comparison 44 foreign banks have 67 operating locations, largely in 3 States, outside the State of their main business.

Existing law permits uninhibited multi-State wholesale banking and financing by domestic banks. Foreign bank opportunities are far more limited, largely due to State restrictions.

For action to be taken now which would reduce the degree of multi-State flexibility enjoyed by foreign banks in the United States would be premature and contrary to events promising a trend to multi-State flexibility by domestic banks, which include, Mr. Chairman, your announcement that this subcommittee will make a thorough review of the McFadden Act and related limitations on the branching authority of U.S. banks domestically.

Also, the House Banking Committee FINE study proposes in paragraph 9 of title I to liberalize banking money among the larger cities.

The Federal Reserve is now proposing a one-State restriction which does not even leave room for States to authorize entry expressly by statute, as does section 3(d) of the Bank Holding Company Act for all domestic State banks.

The Fed bill would preempt long-established New York and California policy and squelch the positive recent efforts of Illinois and perhaps other States in the future to legislate to attract foreign banks to an aspiring financial center city.

Such geographic restraints seem anticompetitive and inconsistent with the Federal Government's broader economic policies.

Finally, allow me to say something on the subject of mandatory Federal deposit insurance. As I pointed out earlier, foreign banks are generally disinterested in the retail banking market, with the exception of those few subsidiary banks which branch intrastate for retail purposes.

The latter, for a combination of business reasons and for reasons of State law, are all members of FDIC. Thus, the issue concerns only those foreign bank offices which do not deal with the depositing public to any significant extent.

Therefore, we agree wholeheartedly with the statement of the Chairman of the FDIC to this subcommittee that mandatory FDIC insurance would be discriminatory and unnecessary.

Thank you very much, Mr. Chairman.

Senator McIntyre. Thank you.

Mr. Pittman. I am Steuart Pittman of the Washington law firm Shaw, Pittman, Potts & Trowbridge. We are counsel to the institute and have represented elements of its membership for over 7 years.

The proposal to treat foreign bank branches and agencies as though they were subsidiaries, in order to apply the Bank Holding Company Act prohibitions against nonbank holdings, may have a certain logic when viewed solely from a legal standpoint, without regard to consequences. It has less appeal on a practical level. Our statement covers this subject starting on page 27.

This issue was faced in the 1970 Bank Holding Company Act amendments, when both Congress by status and the Board by regulation permitted limited exemptions for foreign bank holding companies, recognizing that nonbank affiliations are a necessary part of foreign banking abroad for competitive reasons. They also recognized the difficulties of administering restrictions on foreign banks' overseas holdings. There have been very few divestitures by foreign banks under the Bank Holding Company Act. We conclude that nonbank affiliations have not been, and are not now, a significant problem.

The discriminatory results of treating branches and agencies as though they were subsidiaries are twofold: First, domestic banks may elect to expand, either by the subsidiary route under the Bank Holding Company Act restrictions, or by branching under applicable Federal or State statutes. But foreign banks would be denied the branching choice and are compelled to become bank holding companies, no matter what form their U.S. operations take.

Second, Congress for good reason limited the Bank Holding Company Act to holdings of depository banking institutions. S. 958 makes an exception by applying the act to nondepository foreign bank agencies but to none of the many domestic nondepository institutions.

Furthermore, to apply the section 4 restrictions of the Bank Holding Company Act to branches and agencies requires that they be ficticiously treated as though they were subsidiaries. As Secretary Gardner pointed out, this confuses and distorts the structure of the Bank Holding Company Act. It should be avoided in the absence of some urgent necessity.

We conclude that foreign banks do not, to any significant extent, have nonbank holdings which would not be exempted under section 4, and that coverage of branches and agencies would require a troublesome degree of control and reporting imposed by the U.S. Government on the foreign activities of foreign banks.

Your interest in nonbank affiliations is perhaps largely concerned with foreign bank control of securities firms. A Senate subcommittee is reviewing the Glass-Steagall Act. It has the best opportunity to consider whether that act should be extended to foreign shareholders, including banks, in the context of the advantages and disadvantages of foreign investment in the U.S. securities industry, as well as in the context of commercial bank regulation.

We doubt that the full scope of this complex issue fits easily into the subject of S. 958. Testimony is needed on what if any of these

securities activities would be, or should be, prohibited by the Glass-Steagall Act, if it were applied to foreign banks.

We suggest that the problem of securities affiliations is limited to foreign bank branches, less than a dozen. Subsidiaries are already covered and agencies are nondepository institutions which probably were not intended to be covered by the Glass-Steagall Act. Governor Mitchell has pointed out that there is little competitive significance to these affiliations.

To sum up, we accept the principle of equal treatment, but find none of the Fed proposals advancing that principle. If securities affiliations are an exception, it is best considered in hearings looking into all aspects of the Glass-Steagall problem.

Thank you. George Bitterly is next.

Mr. BITTERLY. Thank you, Mr. Pittman.

Mr. Chairman, I am George Bitterly, a vice president of the Institute of Foreign Bankers and senior vice president of the Bank of Tokyo, Ltd., a New York agency.

I will cover articles VIII and IX of the institute's statement on the subject of mandatory Federal Reserve requirements.

For so long as the Congress permits State banks to be nonmembers, it would be discriminatory and ineffectual to impose mandatory membership in the System or Federal Reserve requirements on foreign bank activities in the United States.

Over 60 percent of the domestic banks, about 20 of which have assets exceeding $500 million, have elected to be nonmember banks. If there are competitive advantages to nonmembership, which is doubtful, they are widely shared in the domestic banking industry.

Contrary to a growing misrepresentation, foreign banks' U.S. activities are not free from reserve requirements. State chartered subsidiary banks are subject to State reserve requirements.

Branches of foreign banks operate under State laws and are also subject to reserve requirements equivalent to those imposed on State chartered banks.

It should be recognized that reserve requirements place a special burden on the foreign banks, because their sources of funds are different from those of domestic banks. Being foreign, they have relatively less access to interest-free demand deposits or other low-cost sources of funds, and must rely to a much greater extent on purchases of Federal funds from other banks or on issuing certificates of deposit at market rates.

Funds advanced from head offices or affiliates abroad carry with them the relatively high costs of acquiring those funds in foreign money markets. Although we know of no relevant statistics, these factors lead us to believe that the foreign bank activities in the United States, with the possible exception of the few subsidiaries branching intrastate for the retail market, necessarily have higher costs of funds than do domestic banks.

Subjecting foreign banks to mandatory Federal Reserve requirements would place them at a cost of funds disadvantage relative to domestic banks.

The Federal Reserve Board justification for S. 958 has been quite general with respect to monetary policy. A separate and accompanying statement prepared for the Institute of Foreign Bankers by Car-

ter H. Golembe Associates, Inc., takes the position that the extending of the Federal system of reserve requirements to all U.S. offices of foreign banks would not help in any significant way with U.S. money problems.

The total assets and liabilities of the foreign bank offices in this country, of course, large in absolute terms. But the operations of these offices do not involve movements of funds which would be large in relation to the Federal Reserve System's capacity to offset any unwanted changes in this country's money markets.

Hence, these operations do not appear to pose a significant problem for monetary policy. Obviously, the Federal Reserve does need information about banking operations in this country, but it has ample access.

Foreign banks operating in the United States already supply more data through their monthly reports than do the domestic nonmember banks and have always supplied whatever data have been requested.

The other point of greatest importance is that the operations of U.S. offices represent only a very small part of the total dollar assets and liabilities of foreign banks. The much larger dollar totals o fthe foreign banks are a necessary concomitant of the paramount position of the U.S. dollar as a medium of world trade and the position of our major cities as international financial centers.

Our monetary authority could indeed have serious problems arising from flows or potential flows of dollars between other countries and the United States. But the more important international pressures and movements are not dependent upon the foreign banks having offices here. Effective dealing with problems of these kinds would depend upon international economic negotiations of very broad scope. It would therefore not be realistic to expect the regulation of the U.S. offices of foreign banks to achieve any significant results in governing the movement of funds into or out of this country.

An important question is whether nondepository foreign bank agencies should be included in any proposal for mandatory Federal Reserve requirements. Agencies are not subject to domestic reserve requirements. State or Federal, because not being banks in the ordinary sense, they are not permitted to accept domestic deposits.

Although it is not clear, there is cause for concern that the Federal Reserve Board might, if S. 958 is passed, broaden the definition of deposits to cover credit balances for the purpose of extending the reach of its reserve requirements. To so classify credit balances would disregard State and Federal classifications of long standing.

It is important to understand that credit balances maintained by agencies and other domestic nonbank leaders are different than the deposits maintained by banks and have never been subjected to Federal or State reserve requirements because of that difference.

The credit balances are liabilities to customers that arise out of, or are related to, business transactions conducted by the agency or other lender for a customer.

These balances normally change rapidly as transactions are completed. Because of their special origin, use and duration, they do not serve as a means by which an agency can acquire funds for its lending purposes.

For these reasons, credit balances are essentially similar, not to bank deposits, but to the customer accounts maintained by nonbanks, such as finance companies, stock brokers, and factors.

We want to emphasize that agency credit balances, lumped with deposits in the Federal Reserve statistics, are not the type of funds which should be or have been in the past subject to Federal or State reserve requirements of any kind.

We should add that foreign bank offices in the United States would properly be subjected to mandatory Federal Reserve requirements at any time when such requirements are imposed universally on domestic banks, as the Federal Reserve Board has proposed.

Thank you, Mr. Chairman.

I will now call upon Mr. Tajima.

Mr. TAJIMA. Thank you very much.

Mr. Chairman, I am Elizo Tajima, trustee of the Institute of Foreign Bankers and managing director agent of Sanwa Bank, Ltd., in New York.

I would like to refer you to page 11 of the Institute's statement.

I would like to summarize the major discriminations against foreign banks in Federal bill S. 958. They are as follows:

One: State location restrictions on branches and agencies engaged in wholesale banking, proposed to equalize conditions for foreign and domestic banks, would in fact accentuate the disadvantages under which foreign banks now operate in competition with the extensive multistate wholesale banking activities of their domestic competitors.

Federal bill S. 958 would deny to branches and agencies the opportunity in secondary States which permit entry explicitly by statute, a possibility open to domestic State banks.

Whereas domesetic banks may elect to expand either by the subsidiary route under the Bank Holding Company Act restrictions or by branches under applicable Federal or State statutes, foreign banks are denied the branching choice and are compelled to become bank holding companies no matter what form their U.S. operations take.

Congress, for good reason, limited the Bank Holding Company Act to holdings of depository banking institutions; S. 958 makes an exception by applying that act to nondepository foreign bank agencies but to no domestic nondepository institutions.

As recently pointed out by the Chairman of the FDIC, mandatory deposit insurance is not only unworkable but is also discriminatory.

Mandatory membership in the Federal Reserve System solely for foreign subsidiaries, branches, or agencies, which are part of banking systems with worldwide assets exceeding $500 million is another special rule to be applied exclusively to foreign banks. The standard is not only discriminatory by nature and intent, but fails to encompass about 20 domestic banks which exceed the asset limitation.

Mandatory membership in the system incidentally imposes virtualy total mandatory federalization of foreign bank regulation from control over organization to routine examination, making meaningless the choice available to domestic banks between Federal or State regulation which is fundamental to the dual banking system.

We believe it is misleading to justry proposals which are discriminatory in terms of the principle of national or equal treatment of foreign and domestic banks.

Thank you very much.

Mr. PITTMAN. Mr. Chairman, Mr. Tajima has just identified the seven manners in which this proposal is discriminatory. They are listed, if you want to refer to them, on pages 11 and 12 of the statement.

Senator McINTYRE. This statement will be included in its entirety in the record.

[The document follows:]

Statement of

THE INSTITUTE OF FOREIGN BANKERS

Before the

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

of the

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

on

S.958, A BILL FOR FEDERAL REGULATION OF FOREIGN BANKS

January 30, 1976

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INSTITUTE OF FOREIGN BANKERS

STATEMENT RE S.958

PART ONE: BACKGROUND

I Introduction

We appreciate the invitation to give you the views of the Institute of Foreign Bankers on S.958. The Institute membership includes 71 subsidiary banks, branch banks and agencies of foreign banks from all parts of the world directly affected by the issues before you. The total institutional membership is 116, the remainder consisting of representative offices. The number of banking offices in the United States represented by this membership includes the vast majority of the 175 foreign bank offices making up the Federal Reserve Board statistics we are all using. Although they have diverse interests and views on some subjects, the Institute is here speaking for the management of the great majority of operating foreign bank offices in the United States which would be most directly affected by the proposal before you. Because these foreign

bankers live with the peculiarly diverse system of regulation in the U.S., these comments derive from that experience, not from philosophical views about the role of the Federal Government in the dual banking system.

We are today addressing ourselves to the major substantive provisions of S.958. There is no time to address the details of this complex proposal. We hope and trust that, if this Subcommittee decides that foreign bank regulation requires new legislation, there will be an opportunity to comment on the many important matters which arise from the specific language and incidental provisions of whatever legislative proposals may be under consideration as a result of these hearings.

The job of analyzing proposed changes in foreign bank regulation and presenting the foreign bank point of view was given to the officers of the Institute, to the Institute's counsel, Shaw, Pittman, Potts & Trowbridge, and to the Institute's economic consultants, Carter H. Golembe Associates, Inc. The responsibility for preparing and presenting this statement is shared by the following who are here to answer your questions:

Paul E. Hollos, Pres. of IFB, Chairman and Pres. of American Swiss Credit Corp., N.Y.C.

George R. Bitterly, Vice Pres. of IFB, Sr. Vice Pres. of The Bank of Tokyo, Ltd., N.Y.C.

Mario R. de Luca, Vice Pres. of IFB, Exec. Vice Pres. of Banco di Roma, N.Y.C.

Eizo Tajima, Trustee of IFB, Managing Director and Agent of Sanwa Bank, Ltd., N.Y.C.

Steuart L. Pittman, Counsel to IFB, Shaw, Pittman, Potts & Trowbridge, Wash., D.C.

II General Position of IFB

Governor Mitchell's latest statement at the recent House FINE hearings gave three reasons why new legislation is needed: (a) foreign banking in the U.S. has grown rapidly in the last 2 years; (b) the "patchwork" system of bank regulations in the U.S. results in differences in regulatory treatment of foreign banks and domestic banks; and (c) regulation of foreign bank offices in the U.S. is more appropriate under Federal than state administration.

In a few words, our response is (a) that the U.S. growth of foreign banks has conformed to world economic trends and remains low relative to expansion of U.S. banks abroad; (b) that the "patchwork", whether it be chaos or healthy diversity, is an integral part of bank regulation in the United States, creating many regulatory differences or "advantages" among domestic banks, and provides no justification for singling out a few selected differences in foreign bank treatment for correction, when neither domestic nor foreign banks complain of any impact from unfair competition; and (c) that the proposed elaborate federalization of foreign bank regulation serves no clearly defined needs, trading in a system which has proved

workable for many years for one which would increase the cost of doing business and create years of uncertainty as new administrators come to grips with unforeseen problems.

S.958 and similar proposals are not the product of complaints from injured domestic banks about the regulation of foreign banks; they have their main impetus from the Federal Reserve Board's accelerating efforts towards centralizing and federalizing of bank regulation. While it may be understandable for regulators to seek to extend their jurisdiction to the extent politically and legally possible, specific public benefits should be demonstrated; it is not enough to rely upon philosophical concepts. Conceptually the S.958 proposals have a certain logic. But we have yet to see any analysis, from the practical standpoint of business and economics, of the precise need for each specific change proposed and of the potential effect of these changes. Surely half a dozen Federal statutes need not be amended to correct the several alleged competitive advantages nor to avoid impairment of monetary policy. Nor are there any high principles which require Federal rather than state regulation of foreign-owned businesses or foreign commerce.

We all subscribe to the generalization that bank regulations should not give unfair competitive advantage to either foreign or domestic banks. We also agree that foreign bank activities in the U.S. should not impair the administration of monetary policy. The many witnesses before the House FINE

hearings last month produced no evidence of such unfair competitive impact or that monetary policy has been impaired. We believe each of these possibilities to be theoretical and not likely to become realities under foreseeable circumstances. It appears to us that bank regulators, including the Federal Reserve Board, and our domestic bank competitors are generally in agreement that foreign banks are not causing any such adverse effects at this time. The presumably objective recent Commerce Department report to Congress on the status of foreign investments* contains comments consistent with this view. We urge that a present, not a future, necessity should be established at these hearings to justify any such farreaching legislation.

There is another good reason why S.958 may be premature. The need for, and nature of, any change intended to achieve equal treatment will be more readily perceived after disposition of proposals pending before Congress which may change the comparable treatment of domestic banks with respect to the three most critical issues of S.958: multi-state banking; Glass-Steagall policy; and mandatory universal Federal Reserve System membership. We do not oppose any legislative changes creating new rules for domestic banks as well as foreign bank offices.

S.958 must stand or fall on the issue of competitive advantage in the wholesale international banking market and perhaps on the issue of impairment of monetary policy. The vaguely

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* Foreign Direct Investment in the U.S.
Commerce Department, Oct. 1975, Appendix VIII, p.26.

identified benefits of federalizing foreign bank regulation and the incentives to submit to Federal regulation do not by themselves justify a bill. On this assumption we are concentrating on four key proposals of S.958 and take the following position on each:

1. The Institute opposes new one-state banking restrictions on branches and agencies on the grounds that there are no effective one-state restrictions on the wholesale market operations of the large domestic banks with which foreign bank branches and agencies compete.

2. The Institute opposes the unique treatment of foreign bank branches and agencies as though they were subsidiaries for the purposes of applying the prohibitions against nonbank holdings of Section 4 of the Bank Holding Company Act, on the grounds that it would distort the structure of that Act in a discriminatory manner and would unnecessarily require a Federal regulatory agency to administer extraterritorial controls over the overseas activities of foreign banks, primarily to achieve a purpose better and more directly served by amending the Glass-Steagall Act to the extent that the need is established.

3. The Institute opposes, as discriminatory, unnecessary and unworkable, mandatory membership in FDIC by foreign bank branches and agencies.

4. The Institute opposes the discriminatory size standard for mandatory membership in the Federal Reserve System

applied solely to foreign banks. All forms of foreign banking in the U.S. should have the option available to domestic banks to be nonmembers and to withdraw from membership. Even if Federal reserve requirements can be justified by monetary policy (which we doubt), no justification has been offered for indiscriminately subjecting foreign bank offices to the entire Federal Reserve Act, its many regulations and its subjection of members to other Federal banking statutes.

III Alleged and Proposed Discriminations

1. The Significance of the Competitive Advantage Issue Varies with the Type of Foreign Bank Activities.

New York, California and, within the last two years, Illinois are the main states attracting foreign banks. These states are motivated to augment and protect the roles of their leading cities as international financial centers. With minor exceptions, foreign banks and the other 47 states have shown little interest in each other. For competitive reasons, the international foreign and domestic banks must follow the market of international commerce to the world financial centers. Foreign banks in the U.S. financial centers pursue primarily a wholesale banking business incidental to their international activities. Thus, with a few exceptions, they compete in the wholesale market with the large big city domestic banks, and not in local retail markets.

The exceptional foreign entry into retail banking has been successfully pursued almost entirely through a state-chartered subsidiary branching within its state. They are regulated in essentially the same manner as domestic banks. They are limited to a single state (with one two-state exception as a result of a grandfather exemption under the Bank Holding Company Act, which is no different than that accorded to a number of domestic bank holding companies operating in more than one state). These subsidiary branching systems are owned by registered bank holding companies and submit to the non-banking prohibitions of Section 4 of the Bank Holding Company Act. They carry Federal deposit insurance. Some of them have also joined the Federal Reserve System as their growth requires the benefits of membership, just as do expanding domestic banks. Thus, retail banking in the U.S. by foreign banks is not significantly affected by most of the changes proposed by S.958.

S.958 will make the more modest objectives of wholesale banking more difficult to attain and will have little effect on the few foreign bank subsidiaries ambitious enough to compete in the retail domestic market. The result may be that S.958 will discourage foreign bank wholesale competition in the U.S. and encourage competition at the retail level. The only clear complaint about foreign bank competition arose several years ago in California, largely because of foreign retail expansion. It was voted down in the California legislature.

The agencies of foreign banks are not depository institutions. They exist only under New York and California laws which deny them access to the deposit market and do not permit them to act as fiduciaries.* They are not banks within the meaning of the Bank Holding Company Act and other Federal banking laws. They compete with non-bank lending institutions as well as in the wholesale banking market.

The issue of competitive advantage may well come down to the treatment of foreign bank direct branches (without an intermediate state subsidiary) in the only two states where they exist in significant numbers, New York and Illinois. Most of the recent new branches have been in Illinois, which has successfully promoted downtown Chicago as a site for foreign bank branches restricted to one location. The branches compete with the big city international domestic banks for the business of depositors and borrowers in their home countries or their U.S. subsidiaries and for the business of the U.S. based multinational corporations.

2. Regulatory Diversity Creates Differences but Not Unfair Competition.

We believe that some degree of competitive advantage or disadvantage from regulatory differences is inherent in the diverse American system of bank regulation. It is difficult to say whether foreign banks are favored or disfavored by this system; Governor Mitchell draws no conclusions. But, we repeat, it is clear

* We include as agencies, in addition to the non-depository New York and California agencies, the California "branches" which differ only in that they can accept foreign deposits.

that they compete only with large domestic banks in the wholesale, largely international, markets, except for the small number of retail banks which have no regulatory advantages. Protecting the big city domestic international banks from foreign bank competition, who are not asking Washington for such help, is not an issue commanding the same priority as the other important banking issues which the Congress faces. Those domestic banks opting for national charters do not seek equalizing legislation to offset differences arising from state regulation of their competitors; nor do members of the System seek legislative offsets to "advantages" of nonmembers. It is a system of choices of benefits and restrictions, intelligently made, with competitive implications taken into account at the time, not complained of later on. To deny the benefits of this diversity only to foreign banks would be clearly discriminatory and cannot be justified by comparisons to centralized mandatory foreign regulatory systems.

3. The Proposals Discriminate rather than Equalize Regulatory Treatment.

The regulation of banks in the United States is unique in the world in that it offers those regulated greater flexibility and diversity in choosing among methods of regulation. The most important Federal banking regulations allow their jurisdiction to depend on whether or not banks elect to submit to that jurisdiction, which means that the banks decide whether or not the

benefits outweigh the restrictions. Among the major regulatory options pertinent to S.958 are: membership in the Federal Reserve System which imposes reserve requirements and many other regulations flowing from the Federal Reserve Act; membership in the FDIC with its system of regulations as a condition of obtaining deposit insurance; the Bank Holding Company Act which provides a method for expansion with closely regulated exemptions from prohibited non-bank affiliations; organization under either Federal or state law, with important resulting differences in regulation. The essentially discriminatory nature of S.958 arises from the denial of all these choices to foreign banks. More specifically, the major discriminations against foreign banks in S.958 are as follows:

(a) One-state location restrictions on branches and agencies engaged in wholesale banking, proposed to equalize condition for foreign and domestic banks, would in fact accentuate the disadvantage under which foreign banks now operate in competition with the extensive multi-state wholesale banking activities of their domestic competitors.

(b) S.958 would deny to branches and agencies the opportunity to branch in secondary states which permit entry explicitly by statute, a possibility open to domestic state banks.

(c) Whereas domestic banks may elect to expand either by the subsidiary route under the Bank Holding Company Act restrictions or by branches under applicable Federal or state statutes, foreign banks are denied the branching choice and are compelled to become bank holding companies, no matter what form their U.S. operations take.

(d) Congress for good reason limited the Bank Holding Company Act to holdings of depository banking institutions; S.958 makes an exception by applying that Act to non-depository foreign bank agencies but to no domestic non-depository institutions.

(e) As recently pointed out by the Chairman of FDIC, mandatory deposit insurance is not only unworkable but is also discriminatory.

(f) Mandatory membership in the Federal Reserve System solely for foreign subsidiaries, branches or agencies, which are part of banking systems with worldwide assets exceeding $500 million, is another special rule to be applied exclusively to foreign banks. The standard is not only discriminatory by nature and intent but fails to encompass about twenty domestic banks which exceed the asset limitation.*

(g) Mandatory membership in the System incidentally imposes virtually total mandatory federalization of foreign bank regulation, from control over organization

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* Foreign Direct Investment in the U.S., Commerce Department, Oct. 1975, Appendix VIII, p.38.

to routine examination, making meaningless the choice available to domestic banks between Federal or state regulation, which is fundamental to the dual banking system.

We believe it is misleading to justify the proposals which are discriminatory in terms of the principle of national or equal treatment of foreign and domestic banks. If discriminations are imposed, it should be anticipated that they will be questioned in the light of the bilateral and multilateral treaties and agreements which express principles of non-discrimination on which the U.S. has provided world leadership in recent decades. The rhetoric of equal treatment cannot soften discriminatory results.

4. Foreign Bank Offices in the U.S. are Heavily Regulated.

The myth has arisen that the U.S. offices of foreign banks have an advantage in being under-regulated relative to U.S. national or state banks. In fact, foreign banks in the U.S. are more heavily regulated than many domestic banks. At the state level, they are regulated by the banking departments of New York and California, and, more recently, Illinois, all money center states with in-depth experience in bank regulation. These states have learned to administer reciprocity successfully and to reflect national policy as necessary. They have developed special rules to assure adequate resources in the U.S. for the protection of U.S. customers.

They know how to examine banks which mainly operate in the international market. Foreign bank applications for licenses or charters are granted by New York, California or Illinois only after a full investigation of community need and prospective soundness.

In addition, all foreign banking activities in the U.S., including branches and agencies, are subject to significant Federal regulation and reporting because of the foreignness either of their ownership or of their operations. This includes for example: universal voluntary compliance with Federal marginal reserve requirements (Regulation M); recordkeeping required by, and reporting to, the Treaury Department in connection with various international transactions; foreign exchange reports to Treasury; monthly foreign bank status reports to the Federal Reserve Board, from which the Federal Reserve receives any and all information it requests for monetary policy or other purposes.

5. The Omission of Grandfather Exemptions Would Be Discriminatory.

Title VI of the House Banking, Currency and Housing Committee's FINE "Discussion Principles" seems to contemplate no grandfather exemption, despite fundamental changes proposed for existing businesses of foreign banks, including cessation or sale of parts of these businesses, because of the type of activity or its location. Although our concern here is to emphasize the lack of justification for each of the proposed changes, we must pause to comment on this issue.

First, we appreciate Governor Mitchell's constructive position on grandfathering.

The S.958 proposals are amendments to the Bank Holding Comapny Act. A consistent practice has developed as this Act has been extended over new classes of domestic banks from time to time to avoid retroactive destruction of investments in banking and other businesses. To discriminate by denying grandfather exemptions only to foreign banks, in violation of treaty obligations and principles on which the U.S. has provided world leadership, would be hard to understand. Grandfathering should be provided at least to those changes potentially requiring divesture or cessation of a type of business.

The grandfather date should be the date when foreign banks know the intention of Congress; the date of enactment of legislation. It should in no event be earlier than the date of reporting a bill out of your Committee. The S.958 date of December 3, 1974, has been followed by continuing uncertainty as to the likelihood of legislation during which banking plans should not be expected to be held in suspense.

IV <u>Growth of Foreign Banks in the U.S. Has Been Beneficial to the U.S. and Consistent with World Trends</u>

The widespread assumption of extraordinary foreign bank growth in the U.S. may go to the question of whether foreign bank legislation is too urgent to wait for the legislative

decisions mentioned earlier, which may equally affect foreign and domestic banks. However, there is no suggestion in any of the various proposals for foreign bank regulation that the purpose is to curtail the growth of foreign banks in the United States because they have too much of this country's banking business.

The growth of foreign bank operations in the U.S. is not one of the many problems facing the domestic banking industry. A $50 billion increase in foreign bank assets in the United States in ten years* is a response, which should have been anticipated and welcomed, to the growth of U.S. banking activities abroad, the growth of multi-national banking worldwide and the growth of international trade and investment worldwide.

As of June 30, 1975, the assets of foreign branches of U.S. banks were about three times that of the assets of all forms of foreign banking in the United States.

The United States has more banks in the top 100 banks of the world than any other country. The U.S. banks are better represented in the world's leading financial centers than the banks of any other country. If New York City, the leading financial center of the world, failed to attract and hold the presence of most of the largest banks in the world, there would be cause for concern about the future role of that city as an international financial, monetary and payments center and perhaps also

* Except as otherwise noted, all statistical sources in this statement originate with the Federal Reserve Board Bulletin, its monthly summaries of foreign bank reports and its other published data.

about the role of the U.S. dollar as the leading means for international payments.

If there were cause to worry over foreign invasion of U.S. banking markets, the critical fact would be the relative levels of deposits because deposits are the basis on which commercial banking is built. Giving the benefit of all interpretations, foreign banks have less than 3% of all U.S. commercial banking deposits. A large part of these deposits are comprised of deposits of foreign customers, of U.S. affiliates of foreign corporations, of foreign central banks, of foreign affiliated banks and of other foreign banks. The comparable figures on U.S. bank invasion of the banking markets of foreign countries are in most cases many times grater.

Even if you are willing to compare the growth of foreign banking in the U.S. and U.S. banking abroad solely in terms of assets, the last two years or even the last ten years are misleading periods. U.S. banks made their surge in expansion abroad between ten and twenty years ago and led the way towards multi-national banking. The other major capital exporting countries have followed in the last ten years, particularly in the last several years.

The rate of foreign bank expansion into the United States may well have peaked, because of the confluence of various stimulating economic factors over the last several years, as pointed out in Appendix VIII of the Foreign Direct Investment Report of the Commerce Department. There has been less than a 1% increase in assets during the first half of 1975, while the

growth of U.S. banking abroad in the form of branches alone has grown about 6% in the same period.

Taking the period since the Federal Reserve Board began to develop proposals for further Federal regulation of foreign banks, from December 1972 through June 1975, the rate of growth of foreign bank assets in the United States and all U.S. domestic bank assets abroad has been 111% and 108%, respectively, about the same. This is the period during which some expected that foreign banks would be rushing to enter the United States before the much discussed restrictions on entry became law. During this critical period, assets of foreign branches of U.S. banks (not counting overseas subsidiary assets) expanded by $84 million, compared to an expansion of the assets of all forms of foreign banking in the United States by $30 billion.

To improve further the perspective on growth, we should break down the formsof foreign bank activity which allegedly have advantages over domestic banks.

Governor Mitchell's statistics show foreign bank growth in the last two years to be roughly one half attributable to agencies, one quarter to subsidiaries and one quarter to branches. A large part of these subsidiary assets are those of the small number of subsidiaries branching intra-state into retail banking. The most rapid foreign bank expansion in recent years has resulted from one-shot acquisitions by those few banks electing to compete in the retail markets through

state chartered banks with intra-state branching systems. These retail banking systems do not have the advantages alleged by proponents of foreign bank legislation, as explained earlier. Thus, subsidiary growth, one quarter of foreign bank assets in the U.S., is to a large extent irrelevant to the issues presented by S.958.

The agencies of foreign banks are not depository institutions. As mentioned earlier, they exist only under New York and California laws, which deny them access to the market for deposits and the opportunity to act as fiduciaries. They are not banks within the meaning of the Bank Holding Company Act and other Federal banking laws. Their domestic competitors are not only the big wholesale banks but also non-bank lending institutions of various types. The growth of agencies, about half of all foreign bank assets, is of questionable significance to the issues at hand.

Thus, only the growth of branch assets, one quarter of foreign bank assets in the U.S., seems clearly relevant.

It is important to bear in mind that the growth of foreign bank activities in the U.S. has been beneficial to the U.S. economy as well as essential to the continuing growth and prosperity of U.S. banks abroad. The Commerce Department Foreign Investment Report's Appendix VIII on foreign banks sums up the contribution of foreign banks in the United States as follows:

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"They employ thousands of persons, stimulate domestic production by financing exports and making domestic loans, increase the levels of activity in the financial markets, and provide financial services to some ethnic groups who might otherwise not be able to obtain them." (Appendix VIII, page 26).

PART TWO: KEY ISSUES

V Multi-State Banking

1. Any Multi-State Banking Opportunities Exist Solely in Wholesale Banking Markets.

Existing law and practice effectively limits foreign banks seeking to compete in U.S. retail markets to the same one-state restrictions as apply to domestic banks. As pointed out earlier, retail banking can best be done by foreign banks through subsidiaries which branch within one state. They are subject to Section 3(d) of the Bank Holding Company Act, which restricts banking in any secondary state except as expressly authorized by a statute of that state. The multi-state banking issue, therefore, relates solely to the wholesale banking market.

2. In Wholesale Markets Large Domestic Banks Do Far More Multi-State Banking than Foreign Banks.

Domestic banks are generally restricted from full-line deposit bank branching outside their principal state. However, this by no means prevents them from vigorously competing in the wholesale banking market and the market for financial and other services related to banking. This opportunity takes various forms, which, put together, make up a formidable capability: loan production offices; operating non-depository subsidiaries; grandfathered multi-state holdings of banks by bank holding companies; multi-state 4(c)(8) closely related activities of bank holding companies; and Edge Act Corporations.

(a) Loan Production Offices; Non-Depository Subsidiaries. Commercial banks are permitted to own and operate "loan production offices" and subsidiaries without regard to state branching laws. Loan production offices can be outside the state of the owning bank, as can a subsidiary and its branches. While neither type of organization can offer full banking services, they do enhance the geographic flexibility of domestic banks. Because detailed data on the number and location of loan production offices and operating subsidiaries are not readily available, we treat them together. However, evidence that this dimension of domestic bank activities is very large in relation to foreign bank activities in secondary states is presented in a continuing series of recent case studies of large bank multi-state activities in the American Banker, the conclusions of which are summarized below.

(b) Grandfathered Multi-State Banking. As of December 31, 1974, there were eight U.S. bank holding companies which, under the Douglas Amendment to the Bank Holding Company Act of 1956, held banks in more than one state. The holding companies, the states in which they owned banks, and the number of banks in each state are listed in Exhibit A We have no data on additional multi-state grandfathered activities of domestic banks resulting from the 1970 one-bank holding company amendments to that Act. There have

been, to our knowledge, no complaints about these multi-state activities, nor has the Congress felt the need to review them as being contrary to the regulatory principles of soundness and competition.

(c) Exempted "Closely Related" Activities of Bank Holding Companies. While bank holding companies have been restricted since 1956 to a single state with respect to ownership of banks, acquisitions and *de novo* activities in non-bank areas permitted as "closely related" to banking under Section 4(c)(8) of the Bank Holding Company Act are not restricted in terms of geography. Bank holding companies have not been slow to use this flexibility in the period since 1970 when the law was amended to expand these exemptions, as shown in the table below:

Applications Across State Lines
Approved 6-1-71 thru 9-20-74*

Activity	Acquisitions	De Novo	Total
Mortgage Banking	24	103	127
Real & Personal Property Leasing	6	48	54
Investment Services	3	18	21
Insurance Activities	26	36	62
Finance Company (Commercial, Consumer & Insurance Premium Financing)	64	271	335
Data Processing	1	14	15
Factoring	4	15	19
Trust Operations	4	3	7
Industrial Banking	2	9	11
Community Welfare Investments	-	2	2
Miscellaneous	6	3	9
Totals	140	522	662

* Source: Federal Reserve Board

The interstate acquisitions and activities shown in the table above do not demonstrate the full range of such activities as they do not include non-bank activities entered into across state lines by "one bank holding companies" prior to 1970.

(d) Edge Act Corporation Offices. Under Section 25(a) of the Federal Reserve Act, member banks may invest in subsidiaries engaged in overseas banking, established in domestic locations outside the state of the parent. Exhibit B demonstrates that these corporations provide a substantial interstate capability as of June 30, 1975. While they may not accept domestic deposits, except those incidental to or for the purpose of international transactions, they are fully competitive for loans. They are most active in wholesale international banking, as are the foreign bank branches and agencies. They can readily serve as "loan production offices" for domestic borrowings and many domestic banks contend that they vigorously compete on behalf of their parent for domestic corporate deposits as well. The American Banker reported recently (December 2) that over ten years the assets in California of Edge Act Corporations increased 15-fold, far exceeding the growth rates of foreign banks and domestic banks over the same period.

The combined effect of these multi-state activities, as reported in the American Banker's continuing series is summarized

in Exhibit C. It shows that 11 domestic banks have 1,550 offices, other than their home state branches, in up to 34 states. By comparison 44 foreign banks have 67 operating locations, largely in 3 states, outside the state of their main business.* Existing law permits uninhibited multi-state wholesale banking and financing by domestic banks. Foreign bank opportunities are far more limited, largely due to state restrictions. To illustrate how these figures are composed, we are appending as Exhibit D one of the serials which covers Bank of America nationwide activites.

3. <u>A Premature One-State Restriction on Branches and Agencies Bucks a Legislative-Regulatory Trend toward Liberalization</u>.

For action to be taken now which would reduce the degree of multi-state flexibility enjoyed by foreign banks in the United States would be premature and contrary to events promising a trend to multi-state flexibility by domestic banks which include the following:

(a) Your Chairman's accouncement that this Subcommittee will make a thorough review of the McFadden Act andrelated limitations on the branching authority of U.S. banks domestically.

(b) The House Banking Currency and Housing Committee report entitled FINE Study Discussion Principles proposes in paragraph 9 of Title I to liberalize banking among the larger cities.

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* From Table 17 of Appendix to Governor Mitchell's Dec. 12, 1975 statement before the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance.

(c) The State of Maine last year was the first state to pass a statute, effective January 1, 1978, which provides for reciprocal insterstate holding company acquisitions of banks.

(d) The Comptroller of the Currency has issued regulations relating to CBCTs (consumer bank communication terminals) which permits their installation within a 50-mile radius irrespective of state boundaries; though currently being challenged, they represent a significant test of geographic restraints in the face of new technology.

4. <u>Federal One-State Restrictions Should be Subject to Conformity with State Banking Policy.</u>

There is no basis, as is commonly supposed, for a Federal anti-competitive one-state territorial restraint on banking. The McFadden Act and other Federal statutes were intended to conform to the dual banking system by accommodating restrictive state banking policy towards encroachment by out-of-state banks. Both New York and California welcome and admit foreign banks, even though they have their major U.S. activities in other states. By contrast, the Federal Reserve is now proposing a one-state restriction which does not even leave room for states to authorize entry expressly by statute, as does Section 3(d) of the Bank Holding Company Act for all domestic state banks. S.958 would contravene established New York and California policy and squelch the positive recent efforts of Illinois and

perhaps other states in the future to legislate to attract foreign banks to an aspiring financial center city. The purpose may be to spur liberalizing state legislation, but the proposal seems anti-competitive and inconsistent with the Federal Government's broader economic policies. The Department of Justice has better reflected traditional Federal distaste for geographic restraints in its testimony in the House FINE hearings.

VI Non-Bank Affiliations

1. To Treat Branches and Agencies as Subsidiaries Subject to Non-Bank Affiliation Prohibitions would Distort the Bank Holding Company Act and be Discriminatory.

S.958 proposes that foreign bank branches and agencies be treated as though they were subsidiaries in order to [illegible] under the restrictions against non-bank holdings or [illegible] presently contained in Section 4 of the Bank Holding [illegible] The Act has not been applied to bank branches or [illegible] foreign or domestic-owned. To do so would distort [illegible] ture which is designed to regulate controlling [illegible] this point, the Association of Bank Holding [illegible] re- last September to the House, Banking, [illegible] -mittee on the Federal Reserve Board bill [illegible] diverse the application of the Bank Holding Company [illegible] uld be [illegible] the [illegible] ed [illegible] companies [illegible] regu-

branches and agencies, calling it a "legal fiction" inviting misinterpretations of Federal and state statutes governing domestic banking activities.

We submit that it is discriminatory to apply that Act as though foreign branches and agencies, and not domestic branches, were subsidiaries owned by their head offices. It is more sharply discriminatory to apply an Act clearly focused on depository institutions, because of the potential of abuses by those permitted to take the public's freely deposited money, to a class of non-depository institutions, namely, foreign bank agencies, solely because of foreign ownership.

2. Experience with the Foreign Bank Holding Company Exemption Indicates that the Non-Bank Affiliation Issue has Little Practical Significance.

The Section 4 prohibition is peppered with many exemptions because Congress has found that many non-bank affiliations may be useful or at least harmless. One of these (Section 4(c)(9)) reflected congressional recognition in 1970 that foreign banks are permitted many non-bank affiliations abroad and that these affiliations might be expected, increasingly in a world of growing international commerce, to do business in the United States. The Congress left it to the expertise of the Federal Reserve Board to define by regulations what exemptions applicable to foreign bank holding companies would be permitted without conflicting with the essential objectives of the Act. The reason for this restraint still makes sense: in the absence

of abuse, the Federal Feserve Board should not become unnecessarily entangled in direct regulation of foreign banks, requiring disclosure and policing of shareholdings abroad to an extent without precedent in many foreign countries.

The resulting FRB regulations under Section 4(c)(9) are concerned with whether the foreign bank holding company is mostly active abroad, whether the non-bank holding is mostly active abroad and whether the U.S. activities are incidental to foreign or international business. However, securities affiliations prohibited by the Glass-Steagall Act were expressly not exempted by the FRB regulations, so that foreign and domestic bank holding companies are treated alike in this respect.

This recent history is pertinent because it tells us something about the extent of the problem of non-bank holdings by foreign banks with U.S. activities. There have been very few divestitures ordered by the Federal Reserve Board, only one involving a controlling interest in a securities subsidiary and the others involving smaller businesses without significance to bank competition or to the economy.

Section 4(c)(9) and the exemptive regulations issued thereunder were intended to compromise the principle of equal treatment with the recognition that many foreign banks have more diverse activities than domestic banks and the U.S. Government should be restrained from attempting extraterritorial regulation of the affairs of foreign banks. Special FRB forms were developed for registration and reporting by foreign bank holding companies to avoid undue disclosure of information not required to regu-

late their activities in the U.S. It will be much more difficult to draw this line in the case of home offices and their branches and agencies, which are a single legal entity, than in the case of separately incorporated parents and subsidiaries. The problem could bear some resemblance to the difficulties which FDIC has perceived in the extraterritorial administration of its Act.

We draw the conclusion (a) that foreign banks do not, to any significant extent, have non-bank holdings which would not be exempted under Section 4 and (b) that coverage of branches and agencies would require a troublesome degree of control and reporting requirements imposed by the U.S. Government on the foreign activities of foreign banks.

3. If Securities Affiliations Require Special Restrictions, the Application of the Glass-Steagall Act to Foreign Shareholders Should be Reviwed in Hearings on the Banking and Securities Industries.

Some proponents of the need for new legislation lean heavily on the Glass-Steagall issue. They show special interest in those controlling foreign bank interests in securities firms, almost entirely in New York City, which engage primarily in the distribution and dealing in securites for foreign account. A Senate subcommittee is reviewing Glass-Steagall policy. It should consider whether that Act should be extended to foreign shareholders, including banks, in the context of the advantages and disadvantages of foreign investment in the U.S. securities industry, as well as in the context of commercial bank regulation.

We doubt that the full scope of this issue fits easily into the subject of S.958.

We suggest that the problem of securities affiliations is limited to foreign bank branches. Subsidiaries are already covered and agencies are non-depository institutions which probably were not intended to be covered by the Glass-Steagall Act.

Less than a dozen foreign bank branches have securities affiliations of any kind; some of these represent holdings of voting shares not exceeding 5%, too small to be covered by Section 4 of the Bank Holding Company Act; and some are not engaged in the type of securites activities which would be prohibited by the Glass-Steagall Act if it were made applicable. The Federal Reserve has said, upon proposing S.958, that the securites affiliates "have little competitive impact within the securities or banking industries". If, nonetheless, the Subcommittee decides to pursue this subject, testimony should be taken from the securities firms which are affiliated with foreign banks in order to determine whether their activities are of a type which conflict with the Glass-Steagall policy reflected in existing or proposed legislation applicable to domestic banks.

While not disagreeing in principle with the stated national or equal treatment purpose of S.958, we would point out that the Glass-Steagall issue poses a needless confrontation with those foreign banks and central banks which are concerned with reciprocity. The foreign banks are engaging in securities

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activities in order to compete at home and in most parts of the world. U.S. banks engage in these activities abroad. To the extent that foreign banks are engaged in securities activities in the United States in a manner incidental to the securities activities which are an integral part of their foreign-owned businesses, it would seem unnecessary to take a purist approach to the addage "in Rome do as the Romans do".

Finally, our earlier comments to the effect that non-discrimination requires grandfather exemptions applies as much to securities affiliates as to the divestiture of any other type of business.

VII Mandatory Membership in FDIC is Unnecessary and Discriminatory

The justification for mandatory Federal deposit insurance must either be a perceived need to protect the public depositors (the purpose of the Federal Deposit Insurance Act) or a novel concern that the uninsured have a competitive advantage over insured institutions. As pointed out earlier, foreign banks are generally disinterested in the retail banking market, with the exception of those few subsidiary banks which branch intrastate for retail purposes. The latter, for a combination of business reasons and for reasons of state law, are all members of FDIC. Thus, the issue concerns only those foreign bank offices which do not deal with the depositing public to any significant extent.

It seems obvious that mandatory insurance should not apply to agencies which do not take deposits. The deposit business of branches is composed of foreign customers, subsidiaries of foreign corporations or the multi-national U.S. corporations. As the Chairman of the FDIC has contended, the deposit business of foreign banks is not with bank customers requiring the FDIC type of protection.

We cannot believe that a serious argument is being made that insurance should be required of institutions not dealing with a public requiring FDIC protection in order to burden them with an unnecessary cost merely because some of their competitors incur that cost and reap the rewards of the insurance by increasing free funds from depositors.

VIII Foreign Banks have No Unfair Competitive Advantage Resulting from their Election Not to be Members of the System

1. Equal Treatment Requires Voluntary Submission to Federal Reserve Requirements.

U.S. banks subject themselves to the reserve requirements of the Federal Reserve System as a matter of choice. Any state bank may choose not to belong to the System or to withdraw, and a national bank can exercise the same privilege by converting to a state charter. For so long as the Congress permits state banks to be non-members, it would be discriminatory and ineffectual

to impose mandatory membership in the System or Federal reserve requirements on foreign bank activities in the U.S. Over 60% of the domestic banks, about 20 of which have assets exceeding $500 million, have elected to be non-member banks. If there are competitive advantages to non-membership, which is doubtful, they are widely shared in the domestic banking industry.

2. Non-Membership in the System Conveys no Clear Advantages.

Contrary to a growing misrepresentation, foreign banks' U.S. activities are not free from reserve requirements. State chartered subsidiary banks are subject to state reserve requirements.

Branches of foreign banks operate under state laws and are also subject to reserve requirements equivalent to those imposed on state chartered banks. Even in Illinois, where state chartered non-members of the System are not subject to reserve requirements, foreign branches are required by the state to maintain reserves equal to those required by the Federal Reserve Board of state member banks. Likewise, reserve policies of New York and California reflect Federal reserve policy.

In addition, some objectives similar to those of reserve requirements are met by the so-called 108 per cent rule, under which obligations payable in U.S. funds must be held in the state of domicile equal to 108 per cent of the branch's liabilities.

This requirement is imposed on branches in those two states in which foreign bank branches are mainly located (New York and Illinois), and they must be weighed in the equation of competitive advantage. Thus, branches of foreign banks clearly have no advantages over state non-member banks.

It should be recognized that reserve requirements place a special burden on the foreign banks, because their sources of funds are different from those of domestic banks. Being foreign, they have relatively less access to interest-free demand deposits or other low-cost sources of funds, and must rely to a much greater extent on purchases of Federal funds from other banks or on issuing certificates of deposit at market rates. Funds advanced from head offices or affiliates abroad carry with them the relatively high costs of acquiring those funds in foreign money markets. Although we know of no relevant statistics, these factors lead us to believe that the foreign bank activities in the U.S., with the possible exception of the few subsidiaries branching intra-state for the retail market, necessarily have higher costs of funds than do domestic banks. Subjecting foreign banks to mandatory Federal reserve requirements would place them at a cost of funds disadvantage relative to domestic banks.

Obviously, any advantages of non-membership in the System are offset by the System's benefits to those who opt to accept its restrictions, e.g., the discount window, the wire transfer system and other available services. It should also be noted

that reserves imposed on Eurodollar or other foreign loans (even though U.S. offices of foreign banks are all voluntarily complying) would be ineffective, if foreign banks were disposed to avoid this cost, because the loans could readily be made from their offices outside the U.S.

IX Non-Membership in FRS by Foreign Bank Offices Does Not Impair U.S. Monetary Policy

The Federal Reserve Board justification for S.958 has been quite general with respect to monetary policy. A separate and accompanying statement prepared for the Institute of Foreign Bankers by Carter H. Golembe Associates, Inc. takes the position that the extending of the Federal system of reserve requirements to all U.S. offices of foreign banks would not help in any significant way with United States money problems.

The total assets and liabilities of the foreign bank offices in this country are, of course, large in absolute terms. But the operations of these offices do not involve movements of funds which would be large in relation to the Federal Reserve System's capacity to offset any unwanted changes in this country's money markets. Hence, these operations do not appear to pose a significant problem for monetary policy. Obviously, the Federal Reserve does need information about banking operations in this country, but it has ample access. Foreign banks operating in the United States already supply more data through their monthly reports than do the domestic non-member banks and have always supplied whatever data have been requested.

The other point of greatest importance is that the operations of U.S. offices represent only a very small part of the total dollar assets and liabilities of foreign banks. The much larger dollar totals of the foreign banks are a necessary concomitant of the paramount position of the U.S. dollar as a medium of world trade and the position of our major cities as international financial centers. Our monetary authority could indeed have serious problems arising from flows or potential flows of dollars between other countries and the U.S. But the more important international pressures and movements are not dependent upon the foreign banks having offices here. Effective dealing with problems of these kinds would depend upon international economic negotiations of very broad scope. It would therefore not be realisitc to expect the regulation of the U.S. offices of foreign banks to achieve any significant results in governing the movement of funds into or out of this country.

We think it clear that foreign bank activities in the United States are effectively responsible to Federal Reserve Board monetary policy as a result of New York, California and Illinois reserve requirements, which are coordinated with Federal policy, and as a result of universal voluntary compliance with Federal Reserve Board Regulation M reserve requirements, at the request of the Federal Reserve Board. We are also impressed by the growing body of professional opinion that any shortcomings of Federal Reserve System jursdiction, resulting from

the election of over 60% of the domestic banks not to join the System, is of relatively minor significance to the capabilities of the Federal Reserve Board to influence the supply of money and credit.

An incidental question is whether non-depository foreign bank agencies should be included in any proposal for mandatory Federal reserve requirements. Agencies are not subject to domestic reserve requirements, state or Federal, because, not being banks in the ordinary sense, they are not permitted to accept domestic deposits. Domestic non-bank lending institutions are also free of reserve requirements. Neither have deposits on which reserves might be maintained but both have credit balances, which are maintained for purposes of specific transactions, unlike deposits. Savings and loan associations, savings banks, finance companies, factors and others who extend credit are not subject to bank-type regulations.

Although it is not clear, there is cause for concern that the Federal Reserve Board might, if S.958 is passed, broaden the definition of deposits to cover credit balances for the purpose of extending the reach of its reserve requirements. To so classify credit balances would disregard state and Federal classifications of long standing.

It is important to understand that credit balances maintained by agencies and other domestic non-bank lenders are different than the deposits maintained by banks and have never

been subjected to Federal or state reserve requirements because of that difference. The credit balances are liabilities to customers that arise out of, or are related to, business transactions conducted by the agency or other lender for a customer. Examples are funds received as proceeds of a draft collected for the customer, or cash collateral for a letter of credit, or the balance of a loan that the customer has not yet used, or payments for drafts discounted for a customer. The customer may not draw checks against these credit balances, or maintain such balances for purposes unrelated to transactions with the agency. These balances normally change rapidly as transactions are completed. Because of their special origin, use and duration, they do not serve as a means by which an agency can acquire funds for its lending purposes. For these reasons, credit balances are essentially similar, not to bank deposits, but to the customer accounts maintained by non-banks, such as finance companies, stock brokers and factors. We want to emphasize that agency credit balances, lumped with deposits in the Federal Reserve statistics, are not the type of funds which should be, or have been in the past, subject to Federal or state reserve requirements of any kind.

Assuming that concern about the international movements of money and credit may lead to painstaking negotiations over the years ahead among governments and central banks, we see nothing gained by the U.S. taking the lead in attempting to legislate a solution to this complex problem.

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We should add that foreign bank offices in the U.S. would properly be subjected to mandatory Federal reserve requirements at any time when such requirements are imposed universally on domestic banks, as the Federal Reserve Board has proposed.

EXHIBIT A

U. S. BANK HOLDING COMPANIES WITH BANKS IN MORE THAN ONE STATE

December 31, 1974

1. Western Bancorporation, Los Angeles, California

Arizona (2)
California (1)
Colorado (3)
Idaho (1)
Montana (3)

Nevada (2)
New Mexico (5)
Oregon (1)
Utah (1)
Washington (1)
Wyoming (3)

Total -- 23

2. Financial General Corporation, Washington, D. C.

District of Columbia (2)
Georgia (1)
Maryland (3)
New York (3)
Tennessee (1)
Virginia (8)

Total -- 18

3. First Bank System, Inc., Minneapolis, Minnesota

Minnesota (49)
Montana (15)
North Dakota (14)
South Dakota (7)
Wisconsin (1)

Total -- 86

Source: Federal Reserve Board

4. **Northwest Bancorporation, Minneapolis, Minnesota**

Iowa (6)
Minnesota (49)
Montana (7)
Nebraska (5)
North Dakota (9)
South Dakota (4)
Wisconsin (1)

Total -- 81

5. Otto Bremer Foundation, St. Paul, Minnesota

Minnesota (16)
North Dakota (9)
Wisconsin (4)

Total -- 29

6. General Bancshares Corporation, St. Louis, Missouri

Illinois (3)
Missouri (7)
Tennessee (1)

Total -- 11

7. Hamilton Bancshares, Inc., Chattanooga, Tennessee

Georgia (2)
Tennessee (16)

Total -- 18

8. First Security Corporation, Salt Lake City, Utah

Idaho (1)
Utah (5)
Wyoming (1)

Total -- 7

EXHIBIT B
BANKS WITH OUT-OF-STATE EDGE CORPORATIONS
AND EDGE CORPORATION LOCATIONS

1. Allied Bank International, New York, N. Y. -
Controlled by 18 major regional banks through equal ownership

(1) American Fletcher National Bank & Trust Company
Indianapolis, Indiana

(2) American Security & Trust Company
Washington, D. C.

(3) Bank of the Southwest, N.A.
Houston, Texas

(4) Fidelity Union Trust Company
Newark, New Jersey

(5) First Hawaiian Bank
Honolulu, Hawaii

(6) First National Bank of Fort Worth
Fort Worth, Texas

(7) First National Bank of Memphis
Memphis, Tennessee

(8) First National Bank of St. Louis
St. Louis, Missouri

(9) First National Bank of St. Paul
St. Paul, Minnesota

(10) Hartford National Bank & Trust Company
Hartford, Connecticut

(11) Liberty National Bank & Trust Company of Oklahoma
Oklahoma City, Oklahoma

(12) Michigan National Bank
Lansing, Michigan

(13) Trust Company of Georgia
Atlanta, Georgia

(14) United Bank of Denver, N.A.
Denver, Colorado

(15) United States National Bank of Oregon
Portland, Oregon

(16) Valley National Bank of Arizona
Phoenix, Arizona

Source: Federal Reserve Board

(17) Virginia National Bank
Norfolk, Virginia

(18) Western Pennsylvania National Bank
Pittsburgh, Pennsylvania

2. Bank of America National Trust & Savings Association, San Francisco, Californi

(1) Bamerical International Financial Corporation, San Francisco

(2) Bank of America, New York

(3) Bank of America International of Florida, Miami

(4) Bank of America International of Chicago, Chicago

(5) Bank of America International of Texas, Houston

3. Bank of Boston International, New York

(1) Bank of Boston International, Los Angeles

(2) Bank of Boston International, Miami

4. Bank of California, N.A., San Francisco, California

(1) Bank of California International, New York

5. Bankers Trust Company, New York

(1) Bankers International Corporation, New York

(2) Bankers Trust International (Midwest) Corporation, Chicago

(3) Bankers Trust International (Southwest) Corporation, Houston

(4) Bankers Trust International (Miami) Corporation, Miami

(5) Bankers Trust International (Pacific) Corporation, Los Angeles

6. Central National Bank, Cleveland, Ohio

(1) Central Cleveland International Bank, New York

7. Chase Manhattan Corporation, N.A., New York, N. Y.

(1) Chase International Investment Corporation, New York

(2) Chase Bank International-Los Angeles, Los Angeles

(3) Chase Bank International-Miami, Miami

(4) Chase Manhattan Overseas Banking Corporation, New York

(5) Chase Bank International-Chicago, Chicago

(6) Chase Bank International-Houston, Houston

8. Chemical Bank, New York, New York

(1) Chemical International Finance, Ltd., New York

(2) Chemical Bank International of Chicago, Chicago

(3) Chemical Bank International of San Francisco, San Francisco

9. Citizens & Southern National Bank, Savannah, Georgia

(1) Citizens & Southern International Bank, Miami

(2) Citizens & Southern International Bank of New Orleans, New Orleans

(3) Citizens & Southern International Corporation, Atlanta

10. Connecticut Bank & Trust Company, Hartford, Connecticut

(1) Connecticut Bank International, New York

11. Continental Illinois National Bank & Trust Company, Chicago, Illinois

(1) Continental Bank International, New York

(2) Continental Bank International (Pacific), Los Angeles

(3) Continental Bank International (Texas), Houston

(4) Continental International Finance Corporation, Chicago

12. Crocker National Bank
San Francisco, California

(1) Crocker International Bank, New York

(2) Crocker International Corporation, San Francsico

(3) Crocker International Development Corporation, San Francisco

(4) Crocker Mid-America International Bank, Chicago

13. The Fidelity Bank
Rosemont, Pennsylvania

(1) Fidelity International Bank, New York

14. First National Bank of Chicago
Chicago, Illinois

(1) First Chicago International Banking Corporation, New York

(2) First Chicago International Finance Corporation, Chicago

(3) First Chicago International in Los Angeles, Los Angeles

(4) First Chicago International in San Francisco, San Francisco

15. First National City Bank
New York, New York

(1) First National City Bank (Interamerica), Miami

(2) First National City Bank (International-Chicago), Chicago

(3) First National City Bank (International-Houston), Houston

(4) First National City Bank (International-Los Angeles), Los Angeles

(5) First National City Bank (International-San Francisco), San Francisco

(6) First National City Overseas Investment Corporation, New York

16. First Wisconsin Bankshares Corporation
Milwaukee, Wisconsin

(1) First Wisconsin International Bank, New York

17. Girard Trust Bank
Philadelphia, Pennsylvania

(1) Girard International Bank, New York

18. Harris Trust & Savings Bank
Chicago, Illinois

(1) Harris Bank International Corporation, New York

19. Irving Trust Company
New York, New York

(1) Irving Interamerican Bank, Miami

(2) Irving International Financing Corporation, New York

(3) Irving Trust Company International-Pacific, Los Angeles

20. Manufacturers Hanover Trust Company
New York, New York

(1) Manufacturers Hanover Bank International (Los Angeles), Los Angeles

(2) Manufacturers Hanover International Banking Corporation, New York

(3). Manufacturers Hanover International Finance Corporation, New York

21. Mellon Bank, N.A.
Pittsburgh, Pennsylvania

(1) Mellon Bank International, New York

22. Morgan Guaranty Trust Company
New York, New York

(1) Morgan Guaranty International Bank of San Francisco, San Francisco

(2) Morgan Guaranty International Bank of Houston, Houston

(3) Morgan Guaranty International Finance Corporation, New York

23. National Bank of Commerce of Seattle
Seattle, Washington

(1) International Bank of Commerce, Los Angeles

(2) National Bank of Commerce of Seattle (International), New York

24. North Carolina National Bank
Charlotte, North Carolina

(1) NCNB International Banking Corporation, New York

25. The Northern Trust Company
Chicago, Illinois

(1) The Northern Trust International Banking Corporation, New York

(2) Northern Trust Interamerican Bank, Miami

26. Philadelphia National Bank, Philadelphia

    (1) Philadelphia International Bank, New York

    (2) Philadelphia International Investment Corporation, Philadelphia

27. Ranier National Bank
    Seattle, Washington

    (1) Ranier International Bank, Los Angeles, Los Angeles

    (2) Ranier International Bank, New York, New York

28. Security Pacific National Bank
    Los Angeles, California

    (1) Security Pacific International Bank, New York

    (2) Security Pacific Overseas Corporation, Los Angeles

29. State Street Bank & Trust Company
    Boston, Massachusetts

    (1) State Street Bank Boston International, New York

30. United California Bank
    Los Angeles, California

    (1) United California Bank International, New York

    (2) United California Overseas Investment Corporation, Los Angeles

31. Wachovia Bank & Trust Company, N.A.
    Winston-Salem, North Carolina

    (1) Wachovia International Investment Corporation, Winston-Salem

    (2) Wachovia International Banking Corporation, New York

32. Wells Fargo Bank, N.A.
    San Francisco, California

    (1) Wells Fargo Bank International, New York

    (2) Wells Fargo Interamerican Bank, Miami

EXHIBIT C

Multistate Activities of Selected Domestic Banking Systems

American Banker Issue	Bank or Holding Co.	Number of Offices in Secondary States	Number of States
Oct. 23/75	BankAmerica Corp.	336	32
Oct. 29/75	Citicorp	284	34
Nov. 5/75	Manufacturers Hanover Corp.	151	15
Nov. 13/75	Chemical New York Corp.	121	15
Nov. 20/75	First Chicago Corp.	26	9
Dec. 4/75	Security Pacific Corp.	45	13
Dec. 12/75	First National Boston Corp.	33	11
Dec. 22/75	First Pennsylvania Corp.	263	25
Dec. 29/75	Philadelphia National Corp.	94	15
Jan. 6/76	North Carolina National Bank	122	7
Jan. 13/76	Citizen and Southern National Bank	40	9
Jan. 21/76	Pittsburg National Corp.	35	15
	TOTAL:	1550	

EXHIBIT D

Nationwide Spread of BHCs: 336 Nonbank Offices of BankAmerica Corp. in 32 States

By MICHAEL QUINT

The spread across the United States of nonbank subsidiaries of bank holding companies has been a significant development in the years since the 1970 amendments to the Bank Holding Company Act.

This article about BankAmerica Corp., accompanied by a map on pages 8-9, is the first of a series describing the geographical range and functional variety of some of the largest of these holding companies.

NEW YORK. — The $64.2 billion-asset BankAmerica Corp., San Francisco, holding company for the $32.3 billion-deposit Bank of America NT&SA, will have 336 nonbank offices in 32 states after it divests itself of some consumer finance offices in the western United States.

Bank of America, besides its 1,045 branches in California, has five Edge Act corporations, a securities trading operation in New York City, and four corporate service centers.

The holding company's subsidiaries are engaged in consumer and sales finance, commercial lending, mortgage banking, selling and reinsuring credit-related insurance, leasing, computer services, investment management, providing venture capital to businesses in the U. S. and abroad, marketing travelers' checks, and a full range of banking services.

BankAmerica's most geographically dispersed domestic subsidiary is FinanceAmerica, Inc., an Allentown, Pa. consumer finance company known as GAC Finance, Inc., until August, 1974. After the proposed sale of 127 consumer finance offices in 12 western states, announced Sept. 18, 1975, is completed, FinanceAmerica will have 314 offices in 29 states. BankAmerica acquired the company in January, 1974, after obtaining Federal Reserve Board approval in the preceding month.

The offices to be sold in the western U. S. are omitted from the accompanying map.

When the Fed approved the acquisition BankAmerica agreed to divest the consumer finance offices in California, Oregon, Washington, Arizona, New Mexico, Texas, Idaho, Montana, Wyoming, North Dakota, South Dakota and Colorado, as well as some other assets of GAC Finance, Inc., including the rediscount business.

According to officials of the holding company, the sale agreement announced in September will fully meet the divestiture requirements in the Fed's approval. The offices in the 12 affected states have been operated under the name of GAC Finance pending the sale. The agreement calls for them to be purchased by ITT Financial Corp., a subsidiary of International Telephone & Telegraph.

BankAmerica will be allowed to reenter the consumer finance business in those 12 states through an acquisition or by creating a new office, but any such expansion will require Federal Reserve Board approval.

Officials at the holding company noted that when the proposed sale to ITT Financial is completed, the holding company will not be engaged in any activities that have not yet been approved by the Fed or that would require such approval by 1980.

The exact number and locations of consumer finance offices shift frequently because of changing growth patterns in cities and internal reorganization, a FinanceAmerica official noted. The locations shown on the accompanying map are based on an internal FinanceAmerica roster as of June 30. The map does not include seven offices of FinanceAmerica which are engaged in collection of bad loans made by other offices.

An official of FinanceAmerica noted that approval of the Federal Reserve is necessary to open new offices or to relocate an office by more than a mile. Approval is not necessary to close an office, he added.

FinanceAmerica's advertisements and store signs identify it as "A BankAmerica Company" or "A BankAmerica Financial Service Company."

The largest portion of FinanceAmerica's business is in the consumer credit division, which makes personal loans where permitted and also finances consumers' purchases of appliances, furniture and other goods from retailers. In February, 1975, FinanceAmerica said there were 303 offices in this division and that 259 of them offered loans secured by second mortgages. Subject to state laws, the consumer loan offices also sell credit-related insurance.

An Oklahoma City office is the base for a loan program offered to professionals and executives in 16 states by mail.

FinanceAmerica said the offices in the consumer credit division are linked by an on-line, real-time computer system. FinanceAmerica officials said the company does not use the services of Decimus Corp., another BankAmerica subsidiary offering computer services.

Beginning in July, 1974, six FinanceAmerica loan offices in Pennsylvania started selling BankAmerica Travelers Cheques. This activity was extended to the remainder of the FinanceAmerica loan offices in that state at the start of 1975 and officials said that they plan to expand the activity to other states.

FinanceAmerica Private Brands is the biggest element in the diversified division of FinanceAmerica with 11 offices in 11 states. There were two Private Brands offices in California and one in Texas, but according to BankAmerica Corp. officials, those will not remain in FinanceAmerica after the sale to ITT Financial is completed.

In its promotional literature, FinanceAmerica explains that the Private Brands financing provides a manufacturer or wholesaler with a credit line necessary in distributing products to dealers. It notes that the client can have Private Brands set up a special company with the name identified with the client or product, or that the company can use its own money and Private Brands only as manager.

"Utilizing on-line data processing, Private Brands furnished marketing and credit data, financial records, analyses of sales performance and reports of product turn-over," FinanceAmerica explained.

In an application in April, 1974, to the Fed to change the location of the Allentown, Pa., branch of Private Brands, its activities were described as engaging "in providing funds and/or credit services in connection with financing of stock and floor plan inventory of distributors and dealers of consumer products; makes available at dealers option and cost, fire, theft, and damage insurance on a monthly reporting basis covering only outstanding indebtedness of such floor plan inventory."

Other activities of FinanceAmerica: Management Services include servicing student loans for correspondence schools and big ticket items for nonconsumers, the company said.

The commercial division of FinanceAmerica began operations in Oct. 1974, after the company was acquired by BankAmerica and has only one office in Allentown. The division provides credit secured by receivables, machinery, equipment and inventories. It also will make loans secured by the borrowers' real estate, according to FinanceAmerica.

An official in the division explained that it is not in the factoring business. In its promotional literature, FinanceAmerica said it plans to establish regional offices for this division as its volume of business expands.

Besides the real estate lending of the bank, BankAmerica Corp. has three mortgage banking subsidiaries operating in eight cities in eight states. All of these subsidiaries were created de novo. The holding company's annual report explained that the mortgage companies differ from the bank in that they originate the mortgages but then sell them to institutional investors, retaining only the servicing.

AMERICAN BANKER
October 23, 1975

336 Nonbank Offices of BankAmerica Corp.

BA Mortgage Co. of Denver, Inc., was the first to be established and was permitted by the Federal Reserve in August, 1972, to open a Denver office that would make or acquire for its own account or for the account of others loans and other extensions of credit, as would be made by a mortgage company.

The Fed's approval specifically noted that the permitted activities included the development, making, placement and servicing of mortgage loan investments on residential, industrial and commercial property.

In April, 1974, the Fed approved the creation of BA Mortgage Co. of Texas, Dallas, with the same authorized activities as the Denver-based company.

BA Mortgage Co., Inc., was approved by the Fed in June, 1974, with offices in Miami, Atlanta, and San Francisco. Its permitted activities were the same as for the two existing mortgage banking subsidiaries. In October, 1974, the Fed permitted BA Mortgage to open additional offices in Minneapolis, Kansas City and Chicago.

In addition to the nonbank mortgage banking firms, BankAmerica has other subsidiaries engaged in real estate advice, lending against mortgages or making mortgages on recreational properties.

BankAmerica Realty Services, Inc., San Francisco, was authorized by the Fed in August, 1971 to act as an investment adviser to BankAmerica Realty Investors, a real estate investment trust, and to provide advice on real estate matters to BankAmerica Corp. and its affiliates. At the time of the approval, the Fed also denied permission to "establish and sell limited partnership interest in real estate syndicates and to provide investment advice and management for such syndications as the general partner thereof."

BankAmerica Realty Investors is publicly owned and is not a subsidiary of the holding company or the bank.

Western America Financial, Inc., San Francisco, is a subsidiary of the holding company that was authorized by the Fed in August, 1971, to purchase notes secured by deeds of trust and mortgages covering recreation land or recreation homes.

BA Land Finance, Inc., San Francisco, is a subsidiary of the holding company that was authorized by the Fed in February, 1974, to purchase notes secured by deeds of trust and mortgages covering recreational homes, principally in Arizona.

BankAmerica's leasing activities through its nonbank subsidiaries were authorized by the Fed in January, 1973, when it approved the activity in the offices of the BA Mortgage companies, except San Francisco. The language in the Fed's approval for the leasing activity closely follows that of Regulation Y requiring the lease to be a functional equivalent of an extension of credit and that terms of the lease, including tax benefits, will yield a return to the lessor sufficient to cover the full cost of the property, including the cost of financing the property.

BA Leasing Corp., San Francisco, is a subsidiary of Bank of America that was formed in 1971 to engage in the leasing business in a similar manner to the bank. All leasing business out of California generated by the bank is booked through BA Leasing Corp., officials said.

BA Insurance Agency, Inc., and BA Insurance Co., Inc., both in San Francisco, are subsidiaries of the holding company that were approved by the Federal Reserve in May and December, 1973, respectively. They are involved in selling and reinsuring insurance contracts related to extensions of credit made by Bank of America only and operate only in California.

BA Insurance Agency acts as an insurance agent for sales of credit life and disability insurance related to extensions of credit by the bank, including Timeplan loans. In January, 1975, the agency also was authorized to act as an agent for sales of mortgage redemption and disability insurance related credit extended by the bank.

The primary insurer for insurance contracts sold by BA Insurance Agency is Occidental Life Insurance Co. of California, Los Angeles, a subsidiary of Transamerica Corp.

Occidental, in turn, reinsures insurance sold by the BA Insurance Agency with BA Insurance Co., a wholly owned subsidiary of BankAmerica. Officials noted that BA Insurance Co. reinsures only insurance contracts related to extensions of credit by Bank of America.

Decimus Corp., with six offices in five states, is a subsidiary of the holding company that was approved by the Federal Reserve in April, 1972. It has offices in San Francisco; Glendale, Calif.; New York; Elk Grove, Ill.; Houston, and Piscataway Township, New Jersey. All these offices, except for the one in New Jersey, were authorized in April, 1972. The New Jersey office, located midway between New York City and Philadelphia, was approved in October, 1974.

The Fed's approval of the Decimus offices listed several activities. It may engage in full payout leasing of personal property, primarily computer equipment, or act as an agent or adviser for such a lease. Also, it may store or process data used by financial institutions, such as demand deposit accounting, general ledger accounting, account reconciliation, instalment loan accounting, mortgage loan accounting, savings accounting, credit union accounting, commercial loan accounting. It also may store and process financial and accounting data for nonfinancial institutions relating to payrolls, accounts receivable or payable and other billing services.

Additionally, Decimus Corp. was authorized to provide bookkeping or data processing services for the internal operations of BankAmerica and its affiliates.

According to officials of BankAmerica Corp., Decimus has been the largest independent processor of demand deposits for commercial banks in California for several years. Decimus is about 80% owned by BankAmerica.

Decimus Computer Leasing Corp. was approved by the Federal Reserve in July, 1972, to lease computer equipment, primarily to large corporations, in the same locations as Decimus Corp., except for Piscataway Township, N. J., which had not yet been established. Decimus Computer Leasing is 80% owned by BankAmerica and 20% by Decimus.

BA Investment Management Corp., San Francisco, a subsidiary of the holding company approved by the Federal Reserve in July, 1972, provides investment management and research services for the Bank of America trust department and institutional tax-exempt funds. It also is the adviser to Montgomery St. Income Securities, Inc. San Francisco, a closed-end investment company that is now publicly owned, but was originally sponsored by Bank of America.

Subsidiaries of the Bank of America with offices outside of California are its corporate service centers, Edge Act banks and an office of its bank investment securities division in New York City.

The four corporate service centers, or loan production offices, are located in Chicago, New York, Los Angeles and San Francisco. These offices do not accept deposits.

The Edge Act subsidiaries of Bank of America are located in New York, Chicago, Miami, Houston and San Francisco.

Bank of America (New York) is the oldest Edge Act bank in the country, established in 1948. This bank makes investments in foreign companies, as well as engaging in internationally related commercial banking.

The newest Edge Act subsidiaries were all established or approved by the Federal Reserve in 1971. They are Bank of America International of Chicago, of Florida and of Texas.

Another Edge Act subsidiary, Bamerical International Financial Corp., San Francisco, was established in 1962 but differs significantly in function from the others. Its primary activity is the providing of venture capital to foreign companies through investments, rather than commercial banking.

In addition to Bamerical, there are two other subsidiaries within the holding company that provide venture capital to small businesses.

Small Business Enterprises Co., with offices in San Francisco and Los Angeles, is a small business investment company that is a subsidiary of the bank. Formed in 1959, it provides venture capital to small firms throughout the U. S., but primarily in California.

WestVen Management, based in San Francisco and formed in 1970, manages a partnership called Western Investment Associates, which provides venture capital to foreign and domestic companies. BankAmerica is the principal partner in the firm. The limited partners are Weiss, Peck & Greer, New York stock brokerage firm, and several insurance companies.

The partnership has not been approved by the Federal Reserve, but officials of the holding company noted it was established prior to the Bank Holding Company Amendments of 1970.

They said terms of the partnership calls for it to dissolve in 1978 and if BankAmerica were to set up a similar activity then, it would be necessary to obtain the Fed's approval.

BA Cheque Corp., San Francisco, which was approved by the Federal Reserve in June, 1973, markets and distributes the travelers checks which are issued by BankAmerica Corp. The checks are payable through Bank of America, which is reimbursed for its costs. By making the holding company the issuer rather than the bank, costs of the business were reduced by eliminating the need to maintain reserves against checks outstanding, the application to the Fed explained.

Senator McIntyre. This memorandum, is all this for the record?

Mr. Pittman. There are two statements we would like to see in the record. One is the 40-page statement of the institute. Then there is a shorter statement prepared by Golembe Associates on monetary policy, referred to in our statement. They should both be included in the record.

Senator McIntyre. They will both be included in the record without objection.

[The document follows:]

Foreign Banking Activities in the United States and U. S. Monetary Policy

Prepared for

The Institute of Foreign Bankers

By

Golembe Associates, Inc.

January 1976

Our research and consulting firm of Golembe Associates has been retained by the Institute of Foreign Bankers to analyze various issues relating to the regulation of foreign banks. In that capacity, we were asked to prepare the present brief statement regarding the impact of foreign banks' U. S. operations on domestic and U. S. monetary policy.

It has been alleged in various quarters that the U. S. operations of foreign banking entities frustrate or weaken U. S. monetary policy efforts. For example, in a set of "Discussion Principles" drawn up in connection with a current study for the House Committee on Banking, Currency and Housing, it was stated that:

> ...foreign bank branches and agencies escape the restrictions of member bank reserve requirements. The branches and agencies, which control some 80 percent of total foreign bank assets here, have been able to tap the Eurodollar market for purposes of lending in the U. S. without posting reserves. Domestic banks, on the other hand, have reserve requirements imposed on their identical Eurodollar borrowing. In the period July-October, 1974, when money was tight and domestic banks had a reserve requirement of 8 percent on the use of Eurodollars for domestic purposes, foreign agencies and branches brought \$1.8 billion of Eurodollars into the United States, and lent \$1.4 billion to credit-starved U. S. corporations and \$.4 billion to banks willing to pay as much as 13 percent for short-term funds. As the Federal Reserve Board has recognized, this freedom from reserve requirements for foreign banks doing business in the United States seriously hampers the Board's monetary policies.

From our discussion below, however, it seems clear that the U. S. operations of foreign banks do not hamper monetary policy in this country. While the potentials for large-scale international flows of funds do raise problems for monetary policy, regulation of the U. S. offices of foreign banks could not help significantly in that area.

Unfortunately, beyond ex cathedra pronouncements, the Federal Reserve has not provided evidence of such harm to monetary policy even by non-member domestic banks, let alone foreign banks. Without attempting to provide such an analysis here, it would seem useful to review the exact nature of foreign banking entities vis-a-vis reserve requirements, to examine the magnitude of their U. S. operations relative to various financial aggregates, and to reflect briefly on the role of reserve requirements in monetary policy.

It is important to differentiate among the different types of foreign banking entities in the United States. A first group is subsidiary banks, which are chartered in the United States, under state or federal law, and are subject to all the regulations of any other domestic bank. Thus, a national bank subsidiary or a state member bank subsidiary is fully subject to all Federal Reserve regulations, including reserve requirements. Those that are state non-members are subject to state reserve requirements. These foreign-owned subsidiaries accounted for 19 percent of the assets of all foreign banking entities in the United States and for about half of their deposits.

The second group of foreign banking entities in the United States consists of branches. Licensed by the states, these branches of foreign banks are fully subject to state law and regulation, including state reserve requirements. Even in Illinois where there are no state reserve requirements for non-member banks, branches of foreign banks are required to maintain reserves equal to those that state member banks would be required to maintain.

Thus, both subsidiaries and branches of foreign banks in the U. S. are subject to either state or federal reserve requirements. And, with regard to the

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above-referenced marginal reserve requirement on Eurodollar borrowing by domestic banks, non-member subsidiaries and U. S. branches of foreign banks were requested, by the Federal Reserve, to voluntarily maintain equivalent reserves and they have done so without exception.

The assets of foreign banks' U. S. operations total about $56 billion and their deposits about $18 billion. Of these deposits, we estimate that about one-third are already subject to Federal Reserve System reserve requirements and the remainder are subject to state reserve requirements. Thus, subsidiary banks and branches of foreign banks, whose assets total approximately $29 billion of the $56 billion total, are subject to reserve requirements, state or federal. It is, therefore, very difficult to perceive how either of these groups of foreign banking entities might have frustrated monetary policy.

This leaves the agencies of foreign banks. Agencies are not permitted to accept domestic deposits and thus are not truly operating as banks here. Is there cause for special concern with agencies? Agencies lend money, mostly for international transactions. They may hold credit balances related to such transactions and may borrow money. Their domestic sources of funds are clearly subject to the impact of domestic monetary policy. Agencies, however, obtain substantial sources of funds from abroad, frequently as advances from head offices. As of August, 1975, the total "due to related institutions abroad" for all U. S. operations of foreign institutions was about $21 billion (including subsidiaries and branches which, as already noted, are subject to reserve requirements). The total for agencies (including New York investment

companies) was about $13 billion.

To the extent that it is knowledge, as distinguished from control, that the Federal Reserve needs, it is already getting monthly reports on these totals, as will be discussed further below. But, are the potential magnitudes a problem? It seems highly unlikely. Related institutions abroad must fund their operations, too. Thus, to increase advances to U. S. affiliates sharply would mean a curtailment of other foreign activities or aggressive borrowing in the Eurodollar market. Doing either on a scale which would be significant relative to the aggregate size of U. S. financial markets or to System capacity to affect the money supply is not likely. Even the relatively large Eurodollar market, currently estimated at about $230 billion, could not absorb massive borrowing without driving rates up. If rates abroad rise sharply, these costs must be passed on in the event of advances from head office to U. S. agencies, which would raise the price of credit to U. S. customers. Furthermore, the average cost of funds used by U. S. branches and agencies of foreign banks is reportedly already equal to or above that of competing U. S. banks. Thus, an effort to bring large sums of money into U. S. markets when the System was applying restrictive monetary policy would soon produce effects consistent with System efforts -- higher costs of credit on a restricted supply.

What is the potential magnitude of increase in funding from abroad? During the period covered by Federal Reserve data since 1972, the largest increment in amounts due by foreign banking institutions in the United States to directly related institutions abroad over any three-month period was $2.7 billion. Even assuming a tripling of that amount to $8 billion, an amount which would have the

self-correcting impact described above, the System would seem well equipped to cope with the problem. As of late September 1975, the Board of Governors reported that total Federal Reserve Bank holdings of U. S. Government securities stood at close to $90 billion. Much of this would be available as needed for Open Market Committee sale if it were desired to reduce reserves; it is relevant to note that about $20 billion of these securities were short-term issues maturing within 90 days.

The figures suggest that the System should be able to cope readily with any imaginable magnitude of activity by agencies of foreign banks. It should be further noted that foreign agency lending is but a tiny fraction of total non-bank credit activity. As of June 30, 1975, total loans of savings and loan associations were $261 billion, of mutual savings banks $80 billion, and of life insurance companies, $112 billion. Installment credit extended by finance companies was $38 billion, by other non-bank financial lenders was $26 billion, and by retailers was $18 billion. In the face of these magnitudes, it is difficult to get excited even about total loans of all U. S. operations of foreign banks to other than directly related institutions, amounting to under $30 billion, let alone the considerably smaller total of agency loans.

The basic flaw in the claim that foreign banks should be subject to a legal reserve requirement in order to prevent their hampering monetary policy, is the fact that reserve requirements simply are not essential to monetary policy. The primary tool utilized by the Federal Reserve is open market operations. With this tool, the System has ample capacity, as pointed out above, to offset any influences on the supply of bank reserves which are exogenous to Federal Reserve operations and which would lead to changes that would conflict with

Federal Reserve plans. Furthermore, there is no conclusive evidence that the money stock could be more precisely controlled by "universal membership" or mandatory reserve requirements. Various academic studies of the subject dispute the System's claim that Federal Reserve System reserve requirements on non-member bank deposits are needed for monetary control. In a recent study of this issue published in the September 1974 Journal of Finance, the author concluded:

> None of the tests reported in this paper supports the contention that the FRS reserve requirements are needed on non-member bank deposits for precision in monetary control. Indeed, all of the tests indicate that the non-member banks have been a moderate source of stability for Federal Reserve control of the money stock -- without non-member banks Federal Reserve control would have been slightly more unstable than it was in fact.1/

If Federal Reserve requirements are not necessary for non-member banks with total assets of over $200 billion, and deposits of $175 billion, it is difficult to believe they are necessary for U. S. operations of foreign banking institutions with total assets of $56 billion and total deposits of only $18 billion (and a substantial portion of the latter already subject to System reserve requirements).

If the argument over compulsory membership or System reserve requirements really is over the issue of more knowledge rather than control, the answer is more frequent reporting. In this regard, foreign banking institutions in the United States are already providing more detailed and regular data to the Federal Reserve than are domestic non-members, through the foreign institutions' monthly balance sheet reports. They have always supplied whatever data have been requested.

1/ Starleaf, Dennis R., Journal of Finance (September 1975).

If mandatory or universal Federal Reserve System reserve requirements are not necessary for monetary policy, there would appear to be no reason to single out foreign institutions from among all non-members as being especially detrimental to monetary policy, and thus deserving of special concern of the Congress.

If, by chance, regulation of the U. S. activities of foreign banks is viewed as a means of control over the influence of international dollar flows upon the monetary situation in the United States, this represents a yearning for an era long since gone. The total of assets denominated in dollars that are now held by foreign banks is a considerable multiple of the assets of their U. S. branches and subsidiaries. Because of the growth in this total of assets, and in the banks' corresponding dollar liabilities -- the whole being the often referred to "Eurodollar market" -- the aggregate ability of these banks to move dollar payments into or out of this country has correspondingly increased.

The U. S. activities of foreign banking institutions are, therefore, but the tip of an iceberg as far as the potential influence of foreign banks is concerned, and the Eurodollar market in which they operate is of a size and degree of complexity that make unilateral efforts at regulation fruitless. If significant new costs or restraints are placed on foreign agencies or branches, loans funded in Eurodollars will merely be booked abroad in the agency's or branch's head office or one of its foreign affiliates. Nor are reserve requirements an effective method of controlling the size of the Eurodollar market. When such controls have been unilaterally imposed in the past, business merely shifted to other nations.

It seems undeniable that our monetary authority could have real problems arising from flows or potential flows of dollars between other countries and the U. S. And we must expect that the very large total dollar assets and liabilities of foreign banks, which make such shifts possible, will continue, because they are a necessary concomitant of the paramount position of the U. S. dollar as a medium of world trade and the position of our major cities as international financial centers.

It needs to be emphasized, however, that the more important international pressures and movements do not arise from the maintaining of offices here by foreign banks. These problems would exist even if the foreign banks didn't have U. S. offices at all, and the ability to manage and transfer funds without branch offices becomes even greater with advances in the technology of communications and money transfers. Effective dealing with broad problems of these kinds would depend upon international economic negotiations of very wide scope. It would therefore not be realistic to expect the regulation of the U. S. offices of foreign banks to achieve any significant effect in governing the movement of funds into or out of this country.

Senator McINTYRE. I will ask these questions to your lead witness, Mr. Hollos.

If any of you wish to comment—if you are in agreement with his answer pass it up. If you would like to modify it or add to it, fine.

Lord O'Brien has indicated that bankers from the Common Market countries are generally sympathetic to the thrust of the Federal bill. Since you, too, represent foreign banking interests, how do you explain the difference between Lord O'Brien's position and your own?

Do you understand the question, Mr. Hollos?

Mr. HOLLOS. If I understand well, you are asking about the difference in approach?

Senator MCINTYRE. Difference in your opinions.

You voiced your opinions, all of you, and they seem to be contradictory to the statement of Lord O'Brien.

Mr. HOLLOS. If I understood Lord O'Brien, he said well, if you in your wisdom introduce new legislation, that is your privilege, which we say, too.

Obviously there can't be any contradiction.

And he says, well, there are certain exceptions, or provisions we would like to change, says Lord O'Brien, in the bill, which we say, too.

And he was pleading for grandfathering which we do, too.

So the difference I see is really simply this: we may be more conversant with what is going on. We feel that the introduction of the bill was done in 1974 before proposals for domestic bank reform, which make S. 958 in 1976 premature.

We feel it is not logical legislation for foreign banks and we may be faced with the necessity of doing it all over in 2 years if in your wisdom other proposals which have been discussed and considered by committees of the Senate and the House may change the overall treatment of the banking system.

Is that fair to say that that is really the difference?

Senator MCINTYRE. Any other witness?

Mr. PITTMAN. I would like to add one word. I think there is a difference, not only in tone, but in substance, as I understood what Lord O'Brien said.

I think the answer to your question must be we are speaking for the management of 71 foreign banking facilities that would be affected by this legislation that are in the United States.

We have studied this very closely for the last 3 years and have come to a certain conclusion.

The institute members are all together on that conclusion.

Lord O'Brien is speaking for associations of bankers in many countries in Europe and I would respectfully suggest that he is therefore three steps removed, through the home offices of these banks, through their trade associations in each of these countries and through the EEC Banking Federation.

I think that may account for some of the difference in views.

Senator MCINTYRE. It may be that the subcommittee will determine it just a matter of the approach. I think Lord O'Brien says we agree that if you want to regulate these banks that are operating in this country of yours in any particular way you want to treat is your business, and I agree.

But he did say, I think, toward the end of the questioning that if he had his druthers, as we say, if he had his preference, that he would far prefer nothing.

I don't think I misquote him on that.

Anyway, we will examine the record more closely.

Are there any others who wish to add to that?

[No response.]

On page 7, you indicate that apart from New York, California, Illinois, there seems to be little incentive for foreign banks to expand into other States.

Do you see this, gentlemen, as a lack of expansion into other States continuing into the future?

Mr. HOLLOS. My personal opinion would be, yes. I remember the Swiss Bank operation explaining to me when they went to California it happened that the mayor and Governor wrote them a letter and said please come here, we would like to have foreign banks.

Now, the record is pretty clear. They thought about it and said we would like to be an international financial center.

It seems to me that maybe local enthusiasm and conviction that foreign banks can bring something there is really the triggering point.

Senator MCINTYRE. Disagree, agree?

[No response.]

Any further testimony?

[No response.]

All right. In his testimony, had Deputy Secretary Gardner of the Treasury Department spoke of the need for Federal oversight in developing an orderly pattern of regulation for the future. Do you contest the need, or do you doubt the need for such Federal oversight?

Mr. de Luca?

Mr. DE LUCA. If I may, Mr. Chairman, I think we do not at all contest the need or the right to decide to have Federal oversight provided it were for everybody and according to the principle of equal treatment.

In this case it is the foreign banks that are singled out for Federal oversight, and everything remains status quo for the domestic banks.

Senator MCINTYRE. But you agree it is premature, we don't really need any Federal oversight now?

Mr. DE LUCA. I would say it might be premature because there are standards under consideration and it might be worthwhile waiting some time and come out with complete legislation on the subject applying to all, yes, sir.

Senator MCINTYRE. Any further expansion?

Mr. BITTERLY. I would like to add to my colleagues remarks.

From our viewpoint the Federal Government is now getting all the information I would suggest they can digest, and by Federal oversight they would not gather additional information.

Thank you.

Senator MCINTYRE. How do you see the future development of foreign banking activity in the United States? Will it continue to be more wholesale oriented, or do you see an increasing emphasis on the retail banking business, Mr. Hollos?

Mr. HOLLOS. I think that if you are talking about branches, it will continue to be wholesale banking. Those few exceptions where a few banks, for instance, in New York cater to the minority group retail market are really not important and they incorporate to do it.

I think that a successful retail business can only be done by a local chartered bank which has the same FDIC insurance and the same considerations as the other banks or finance companies against which they compete.

Therefore, I think that if you talk about the foreign banks' branches, they will remain for a long time. I can see, in a wholesale business competing for international wholesale business.

Senator MCINTYRE. Do you all agree, Mr. Pittman?

Mr. PITTMAN. May I add, we do make the point in our statement that the Federal Reserve Board would tend to drive foreign banking in the United States toward retail banking because it would make it more difficult to operate as branches and agencies.

It does not change the picture for subsidiaries.

Therefore, it is an invitation to compete at the retail level.

Mr. BITTERLY. Senator, I would like to add one observation. That it is not easy to obtain a State charter to run a retail bank for the Banking Department, Seate of New York. It is not easily obtained. You must demonstrate the public need and necessity before it is granted.

Senator MCINTYRE. At this point I would like to ask this question. Can you please tell me what factors are relevant to a foreign bank's decision as to whether or not to seek the establishment of an agency, branch, or a subsidiary?

What are the relative advantages and disadvantages of each?

Mr. DE LUCA. I would say that the first things that are relevant are the different legislations of the States. If you want to establish a branch, you cannot go to California because the California law does not allow a branch, it allows an agency or it allows a subsidiary.

When it comes to organizing an agency or subsidiary, it is largely a question of what kind of activity one wants to exercise.

If one wants to stay in nondeposit wholesale international business, then the agency is the tool. As we have said, some subsidiaries are keyed to a certain amount of—retailing by branching within their States.

When it comes to branching, Illinois and New York are the only states that allow branches that can have domestic deposits.

So it is a question of combining the legislations of the State that has been chosen and the kind of business, kind of activity, one wants to exercise.

Senator MCINTYRE. Is there any difference between a subsidiary and an agency?

Mr. DE LUCA. Oh, there is a big difference in the sense that a subsidiary is chartered by the State's activity. It is incorporated as a separate entity. There are capital requirements and it is in fact just like a State-chartered bank. The only difference is that the shareholders are foreigners or a foreign corporation and not an American corporation or American citizen.

Senator McIntyre. What is an agency?

Mr. de Luca. An agency is a directly owned offspring or facility of the bank abroad, which assumes naturally all responsibility for the assets and liabilities of its agency. It is licensed by the State, either New York or California, and the basic point is an agency cannot have any domestic deposits.

In New York State an agency cannot have any deposits at all. It can only have credit balances.

I think on the subject of what the credit balances are, which we think differ from deposits, I think Mr. Bitterly already gave an explanation; he might eventually give some additional ones.

Senator McIntyre. What advantages, if any, do you see to a Federal licensing or chartering option?

Mr. Hollos. May I try to answer?

We are told, we understand that this is, let's say, a candy which we are supposed to receive, opening the possibility of entering into a State which otherwise prohibits the entry of foreign banks.

The Federal chartering would allow us to go, let's say—I don't know, Texas, which otherwise we couldn't go in.

I, personally, don't see a great deal of advantage because I don't think foreign private banks like to go to an environment where they are not welcome. That is not good business.

Senator McIntyre. It is a good point, particularly in Texas.

In order to meet the "Fed's" concern over the impact of a foreign banking activity on monetary policy, might it not be appropriate to give the Fed, the Federal Reserve System, additional authority over reserves of foreign banks short of mandatory membership?

Would that be all right with you gentlemen?

Mr. Hollos. Well, it certainly would damper our outcry if it did not. Remembering that the foreign banks are already voluntarily complying not only with certain reserve requirements, being State-chartered they also comply with the 108 percent asset part of it, and the regulation M.

I would like, if I may just add a point here. If the Fed wishes to make sure that, let's say a foreign agency doesn't bring in a tremendous amount, let's say $10 billion at a time when the Fed has a restrictive monetary policy, we understand that is really their fear. The Golembe associates make a very good case of explaining that this is a practical question and things just don't happen that way.

However, Mr. Chairman, I would like to point out that when there is a great flow and a great pressure of money going from one part of the world to the other, 4 or 5 percent reserves usually don't do the trick.

Germany, if you remember a few years ago, had the great concern of money coming in from abroad at a time when the Germans did not want to increase their monetary circulation, and they did all kinds of reserve requirements through the banks; it didn't work. Finally they had to go and say to the borrower, you put up the reserve, or you ask for our OK. Otherwise, no foreigner can lend to a German because that is what is involved.

If a Bank A head office says—I don't know, I just pick out a city—London or Paris wishes to lend a million dollars to General Motors

Corp. and does it through its New York agency; the Fed says, let's put on a reserve to make it more difficult to be sure they don't do it when I don't like it.

Well, that bank from London and Paris can give the same credit directly from Paris to General Motors and there are no requirements whatsoever. Without foreign exchange restrictions or some new measures, really new, capable of regulating the eurodollar market, I don't see this solves really the problem.

Senator McIntyre. Governor Mitchell of the Federal Reserve has asserted to this subcommittee that the present disparity, the present disparity of reserve requirements, results in a competitive advantage to the foreign banks.

Would you care to comment?

Mr. Hollos. Sir, I see what Governor Mitchell is mentioning, that anybody that has to put up reserves and not getting any interest on it has a disadvantage. That is what he was talking about. We are trying to prove that the foreign bank by the nature of its business, has already a cost disadvantage for its own funds.

Therefore, even if they did have an advantage here, it is certainly offset by the cost disadvantage that the foreign banks by nature have.

Mr. Pittman. May I add that the Conference of State Bank Supervisor's statement yesterday I thought gave a very full and effective argument as to why you cannot make a meaningful comparison between the cost impact of Federal reserves imposed by the Government as compared to reserve requirements imposed by the State government. We agree with what they said.

Mr. de Luca. I would like to point out at this time that foreign banks do put up reserves that are required by a state law, the same as State-chartered banks do that are not members of the system.

As far as this point in particular is concerned, there is also the voluntary compliance system which has worked very well.

Commenting upon the fact that we have a high-cost source of funds, I think it might be appropriate to say we don't have the free base of many demand deposit accounts that domestic banks have. Whatever deposits we do have, we pay for.

Senator McIntyre. Gentlemen, would your opposition to mandatory FDIC insurance be modified if the requirement of such insurance would attach only to those affiliates of foreign banks which accept domestic deposits in the United States?

Mr. Bitterly?

Mr. Bitterly. Senator, I know of no exception of foreign bank subsidiaries who do not have FDIC insurance at this time. So it is recognized that anyone attempting to do a retail business must offer FDIC insurance to the public.

Branches, I would say, my limited knowledge of branches—branches, with few exceptions, do not attempt to do business on the retail level.

Senator McIntyre. Mr. de Luca?

Mr. de Luca. Yes.

I want to say branches do accept domestic deposits and they do have them. But very seldom these domestic deposits are for an individual amount up to $40,000. Therefore, I do not see what practical purpose

the FDIC insurance would carry, as those deposits are big deposits for big amounts.

Senator McINTYRE. You said—you mean your domestic deposits exceed $40,000 far and over.

I can't open a small account of $1,000 in that branch, can I?

Mr. DE LUCA. You would be welcome to do it, but very few people do. [Laughter.]

Senator McINTYRE. The record seems to show that many large U.S. banks are generating more and more of their revenues from foreign banking operation.

Is the same true of foreign banks operating in the United States, and what general comparisons can be drawn?

Mr. BITTERLY. I will attempt to answer the question as far as agencies are concerned.

I think that when a foreign bank opens an agency that, yes, profit is always a part of their consideration. But, I believe that the agency serves a greater purpose for the bank in its international operations. Naturally they try and make a profit, but it is not a sole determination because I point out to you that in the postwar era, in New York State, if there were any agencies that went out of business, I do not know of it.

Certainly some of the agencies that exist in New York City are of modest size. It is a question of whether or not they are truly making profit.

Senator McINTYRE. Gentlemen, we are handing you, or should be handing you a memorandum which the subcommitteee would like you to respond to in writing. You don't have to respond to it here today.

It just assumes that if Congress does decide that there is a need to establish a better Federal handle over foreign banking, then it sets out some proposals.

We would like to see what your reaction to those are.

Mr. Pittman?

Mr. PITTMAN. May I say at a quick glance, this looks like a vast improvement over the Fed bill.

Senator McINTYRE. All right, sir.

I think that is all the questions we have for you gentlemen.

I want to thank all of you very much for your testimony here this morning. It has been very helpful to us as we try to look over this field and see what should be done, if anything.

Mr. HOLLOS. On our part, we thank you for the opportunity.

Senator McINTYRE. Thank you for being here. Thank you very much.

We call as our final witness this morning, Mr. Donald C. Platten, representing the New York Clearing House Association.

Mr. Platten, we are glad to welcome you here this morning. I would appreciate it if you would introduce your associates and also would appreciate it very much since your statement is to the point, I don't see any reason for taking a lot of time reading it. You can sum it up probably in about 2 or 3 minutes then we can go on to some questions we would like to ask you if that is all right.

If you object and want to read the statement, it is all right with me, but the statement will be included in the record in its entirety.

STATEMENT OF DONALD C. PLATTEN, NEW YORK CLEARING ASSOCIATION; ACCOMPANIED BY JOHN F. LEE AND RICHARD S. SIMMONS

Mr. PLATTEN. I have Mr. Lee and Mr. Simmons with me here this morning.

You have caught me in a nonsummation form. but that is all right. I have some headings and I will try to talk to them.

I am sympathetic to my own dilemma of not wanting to repeat what I have heard this morning too much, I am sure you must feel the same way. I guess the Clearing House Association position can be basically summarized from the standpoint of our fear or our dislike of the prospect of the erosion of the dual banking system.

We do in fact feel that the options available to the U.S. banks, that of being either a State bank or a national bank, is something to be preserved. I think I speak, I know I speak for the association. I feel this keenly myself.

Having said that, and believing in that kind of a system, we do feel that it would be discrimination to force, and I use the word advisedly, force foreign banks who wish to come into this kind of banking system, the U.S. system, to not have those options. But instead to be directed that this is what they must do and only this.

The position of the clearing house is that such discrimination, and we view it as such, would in fact, create a retaliatory move, perhaps, and I use the word "perhaps" in a very strong sense than it might seem, might result in discrimination against or retaliation against U.S. banks abroad.

I have heard comments to the effect that retaliation would not be as strong as to hurt U.S. banks, but at the same time I have to tell you that in the real world of our correspondent relationships with most of the major banks throughout the world, the static we have had from foreign banks is that they are very unhappy at the prospect of any such discrimination.

To me it does seem a little strange to contemplate a bank from, we will say the United Kingdom or Germany or wherever, being only allowed to have a branch or a subsidiary or agency in Chicago, period while a U.S. bank, the friendly Chemical Bank, could have a Frankfurt office and one also in Munich, and not have the German authorities have some kind of feeling that this is a discriminatory act—that their bank can only operate in one State or one city.

I feel those two points are probably the strongest ones that we have in terms of our feelings.

The coverage or protection of the U.S. depositor I think is something which is of moment. Obviously the FDIC protection is something which comes up. You yourself have said that or raised the question of opening up an account of a $1,000 in a foreign bank and the response was that very few people do. I don't think a requirement for FDIC coverage is pertinent. Foreign banks that come into this country principally are following, first, they own national corporations to do business with them in a major market such as the United

States. They are in the "big ticket" business, they are not engaged on a retail level.

I think to look ahead and say what down the line is going to come, are they going to go retail, is something that will depend both on State law and also that particular bank's policy.

I can make a comparison just to point it up. The First National City Bank has gone throughout the world with many, many branches all over the globe. They have entered into the retail banking business purposely, as a matter of policy. The Chemical Bank has not done so. We have gone into foreign markets on the basis of wanting to be in money centers throughout the world, but not engaging ourselves in the retail trade. So I think it is a matter, as I say, both of bank policy and also local laws.

Obviously there are laws in certain countries where you can't even branch or do anything except have a joint ownership position. But our country today has had a history of a very strong banking system ever since the Banking Act of 1933. The system has worked well. The competition from foreign banks has been, I think, healthy. We sharpen their wits when we go abroad, they sharpen our wits when the come compete against us.

We feel this is a good two-way street and we are for it. We don't want them to be discriminated against as regards their option.

Senator McIntyre. You like the status quo.

Mr. Platten. The status quo seems to have worked well, sir. We think it's been of benefit to the economy, both to our domestic economy as well as to our international trade and economy of the world.

That is a quick summary.

Senator McIntyre. I appreciate it. Your statement will appear in the record in its entirety.

[The complete statement follows:]

Statement of Donald C. Platten

I am Donald C. Platten. I am the Chairman of Chemical Bank. I appear today as a spokesman for the New York Clearing House Association.

The New York Clearing House Association opposes enactment of Senate Bill 958. My testimony today will explain the reasons for the Association's objections to the bill. A section-by-section analysis of the bill, pointed out certain technical drafting flaws, has been submitted to this Committee with my statement.

The purpose of the bill has been stated to be elimination of the disparities existing between the powers of foreign banks operating in the United States and those of domestic banks, particularly with regard to the ability of foreign banks to engage in interstate and investment banking activities. The bill would accomplish such competitive parity by superimposing federal regulations over the state regulations dealing with foreign banks operating in the United States.

An evaluation of this purpose and the legislation proposed for its implementation must be made within the parameters of two fundamental principles. First is that the right to elect either a federal or a state banking charter has long been regarded as best serving the public interest. Second is that strengthening the international financial system through competition best serves our national interest. It fosters the commerce of the United States and increases the ability of the U.S. markets to compete with those in other financial centers.

Judged in light of these principles, the bill is undesirable. It would deny to foreign banks options which are available to domestic banks under our present system. By such denial, this bill will inevitably be perceived as discriminatory by foreign countries and invite retaliation by such countries against U.S. banks operating abroad.

EROSION OF THE PRESENT DUAL BANKING SYSTEM

As you know, by long historical tradition, an option exists to conduct the business of banking subject either to federal or state regulation.

The present pattern of foreign bank activity in the United States is consistent with that tradition. Foreign-owned banks are, under the present law, in precisely the same position as domestic-owned banks. Foreign-owned national banks are now subject to the National Bank Act and are required to be members of the Federal Reserve System and to insure their deposits with the Federal Deposit Insurance Corporation. To the extent applicable, they are subject to the provisions of the Bank Holding Company Act. A foreign- owned state bank, like a domestically owned state bank, may be, but is not required to be, a member of the Federal Reserve System. Similarly, to the extent applicable, they are subject to the provisions of the Bank Holding Company Act. Their deposits must be insured with the Federal Deposit Insurance Corporation in precisely the same manner as any domestically-owned state bank. Under present law, direct branches, agencies, or other unincorporated establishments of foreign banks are subject to whatever regulation is imposed by the licensing state. They are not subject to any federal regulation, thus being precisely equated with domestic uninsured state nonmember banks.

The provisions of the bill restricting interstate banking by foreign banks, subjecting such banks to the Federal Reserve Act and the Federal Deposit Insurance Act, and requiring federal licensing or regulation of all such banks' operations in the United States would deny foreign-owned banks the option of choosing to operate under state regulation only. As I will cover in more detail later, none of these provisions is necessary or desirable.

a. Federal Licensing or Regulation

The present system has worked well without the additional licensing procedures and regulatory provisions proposed by the bill. Foreign bank capital in the United States has increased dramatically during the past decade. Those states, such as New York, Illinois and California, which have been the most receptive to the entry of foreign banks, have augmented thier banking market and permitted a wider range of choices without in any way jeopardizing the soundness of their banking system.

b. Multi-State Operations

No restriction need be imposed by the Federal Government on multi-state operations of foreign banks. Such is already greatly restricted. A foreign bank seeking to operate a branch or agency in a particular state must obtain a license from that state. Nearly 40 states either exclude foreign banks entirely or permit them to maintain local branches or agencies only if they operate another state is the result of a deliberate choice of the states involved. For in no other state. Welcoming a foreign bank with a branch or agency in instance, the Illinois legislature in permitting foreign banks to branch in Chicago could have provided that no such bank with a branch, agency or subsidiary in another state could avail itself of this privilege. It chose not to do so. Section 3(d) of the Bank Holding Company Act allows any state to permit the entry of out-of-state bank holding companies. The states are also free to authorize branches of banks incorporated in other states. Such recogand development on a state-by-state basis. There is no need to abandon such nitions of the right of a state to make its own elections allow experimentation principles when dealing with foreign banks. This is particularly so, since the overwhelming majority of domestic banks are in fact not prejudiced by the limited extent of interstate banking permitted to foreign banks, especially in light of the sophisticated market in which foreign banks compete. The number of domestic banks and Edge Act corporations engaged in foreign finance is really quite limited and foreign banks have afforded welcomed competition.

c. Membership in the Federal Reserve System

No showing has been made for the need to mandate membership in the Federal Reserve System for foreign banks with assets exceeding $500,000,000. The premise that such a requirement is needed to make banks operating in the United States responsive to its monetary policies is undercut by the fact that no such mandatory membership requirement is imposed on domestic banks. Foreign banks do maintain reserves as required by the laws of the states in which they are located. Further, they have always voluntarily complied when

requested by the Federal Reserve Board to maintain reserves identical to those required of U.S. banks, as U.S. banks have voluntarily cooperated with central bankers of foreign host countries.

d. FDIC Insurance

No amendment to the Federal Deposit Insurance Act is required or desirable. Foreign-owned banks that are subsidiaries of bank holding companies are now required to insure their deposits. As to the unincorporated establishments of foreign banks, such establishments have confined themselves to activities incidental to the foreign and international business of their home bank. Their business is primarily "money centered" oriented, relating to so-called big ticket transactions. As presently conceived, deposit insurance, with its maximum coverage of $40,000, offers such banks no inducement and their customers no significant protection. To the extent that foreign banks seek to conduct a retail business in the United States soliciting consumer deposits, savings accounts and loans, they are likely to do os either by choice or economic constraints through the vehicle of domestic banking subsidiaries and hence obtain deposit insurance. If foreign banks seek to attract consumer and savings deposits to an unincorporated branch, the best protection to the United States public is the requirement of a conspicuous warning that such deposits are not insured. A requirement with which I am certain they would voluntarily comply.

Quite apart from these considerations, there are serious questions whether the resources of the FDIC should be committed to institutions whose affairs, from a practical viewpoint, cannot be monitored properly or regulated by the FDIC.

e. Investment Banking Performed by Foreign Banks

The amount of investment banking done by foreign banks in this country is largely confined to servicing their own foreign customers in the U.S. market. As such, they simply transact here what their home countries regard as a true banking business. The fact that they are permitted to do that type of business largely is responsible for the receptive atmosphere American investment bankers find for their business activities abroad.

Further, as you know, the separation of commercial and investment banking in the United States resulted from conflicts of interests, to wit: banks palming off underwritten securities on customers, particularly fiduciary. Most foreign countries have not adopted a similar philosophy of separation. There is no cogent reason why the U.S. should adopt a policy to protect foreign nationals when the foreign country in question has elected not to do so.

WEAKENING OF INTERNATIONAL FINANCIAL SYSTEM

The national interest in strengthening the international financial system is best served by facilitating foreign activities of United States banks and domestic activities of United States banks. The bill would undercut that interest. It would discourage the operations of foreign banks in the United States by imposing federal licensing requirements and by subjecting all foreign banks operating in the United States to the strictures of the Bank Holding Company Act, the Federal Reserve Act (in the case of banks with more than $500,000,000 in assets), the Federal Deposit Insurance Act and other similar laws. More significantly, by subjecting all foreign-owned banks, simply by reason of their foreign ownership or citizenship, to laws that now apply to some but not all components of the American banking system, this bill would clearly be perceived as discriminatory by foreign countries. While foreign central bankers have a traditional reluctance to criticize domestic proposals of our monetary authorities and hence did not lodge protests with Governor Mitchell, I assure you that our foreign banking brethren have conveyed strong protest to the members of the New York Clearing House Association. What logic is there in the United States permitting a West German bank the right to have a branch only in Chicago and West Germany continuing to permit a U.S. bank to have branches in Frankfurt and Munich.

Foreign policy problems with regard to domestic activities of foreign banks have thus far been avoided, since such banks have come to accept our tradition of having banks geographically circumscribed and supervised on a state-by-state basis. Any change in that tradition, particularly if it restricts the current U.S. activities of foreign banks, would very likely give rise to international friction and provoke retaliatory measures against U.S. banks.

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CONCLUSION

If foreign banks enjoy any competitive edge, they do so at the sufferance of the states within whose borders they operate and which the states have the power to remove. Far from providing for competitive equality between U.S. and foreign banks, the bill would discriminate against foreign banks by denying them options available to U.S. banks under our present system. Such discrimination is likely to invite retaliation by foreign countries against U.S. banks and damage U.S. markets and the financing of our foreign trade. The result can only be disruptive of the international financial system.

Thank you.

Senator McIntyre. Mr. Platten, based upon Lord O'Brien's testimony, it appears that many of the foreign banks who are the subject of the regulations being proposed in this bill are generally sympathetic to the bill. If the foreign banks are supportive, why are the U.S. banks opposed?

Mr. Platten. I think I said something at the beginning of my remarks that we have a lot of flak, static to that effect from our correspondent friends abroad.

I would say this, that I know Governor Mitchell went throughout the world to major money markets and he got comforting words from foreign central bankers.

Now, Lord O'Brien, please. Foreign central bankers have a great courtesy toward one another with respect to the domestic policies of their respective countries.

I just think that the commercial banking friends that we have are a little more down to earth as far as their reactions to this kind of endeavor than perhaps a central banker might be vis-a-vis another central banker. The word that we get is that there is very great unhappiness regarding the prospect of having this bill adopted with the discriminatory provisions that it appears to contain.

Senator McIntyre. On the question of retaliation, it's been suggested that the concern over this legislation by the New York Clearing House banks is based on their fear of retaliation by the governments of countries in which they do business. Yet it seems to me that these concerns are more illusory than real. Can you please quantify for this subcommittee exactly what kind of retaliatory actions and by what governments you would anticipate if we were to enact the Fed's bill?

Mr. Platten. I can't; I can't look into the minds of central banks or local banking associations and figure out exactly what form it would take. Because of the static we have had, we have the feeling that there would be some retaliatory acts.

As I said in my example of West German bank being allowed to branch only in Chicago, why would they permit us to branch in both Hamburg or Frankfurt and Munich, you name it, the way we can today?

What kind of retaliation it might be, what form it would take, I have no idea, though.

I do know that if retaliation occurs, Senator, if it occurs, that it would be a backward step, the same way I feel this bill would be a backward step as presently drawn, in terms of international trade, which has gone on in an expanding way in the postwar period with very great benefits.

Senator McINTYRE. Lord O'Brien in his reply to a similar question concerning retaliation sort of mused and thought and thought, and finally answered in the negative, he didn't think retaliation would occur, but you disagree?

Mr. PLATTEN. When you get down on one side or the other of the question, I disagree.

Senator McINTYRE. Secretary Gardner testified the other day that by and large, U.S. banks are not discriminated against by most of the countries in which they do business. Your comment?

Mr. PLATTEN. I think that as a general statement is true. There are places where obviously U.S. banks cannot go in any form. There are places where they can go in only one form and not in a form perhaps they would like.

Senator McINTYRE. Some argue that the present system operates to the competitive advantage of foreign banks in the United States. Others have argued that this is not so.

For example, Lord O'Brien testified that the scale of operations and competitive advantage of foreign banks in the United States has not been at all significant in relation to the scale of operations of the domestic banks. What is your opinion?

Are U.S. banks at a competitive disadvantage, one, as to multistate operations as to foreign banks or two, as to existing affiliates of foreign banks?

Mr. PLATTEN. I don't think so in terms of being able to do business, for example, in New York State. as far as our ability, a New York State bank. I am speaking now as an association voice of the New York clearing house banks. We cannot go across State lines as you well know. Some States have permitted foreign banks to come in.

I think it is appropriate to say that Chicago and California, San Francisco or Los Angeles, have encouraged by State law and desire on the part of their State authorities to have money markets created by the introduction of foreign banks. They have done it in that way. It is a competitive disadvantage to a slight degree to a New York City bank. But it is not a horrible disadvantage.

We can in fact open Edge Act corporations in those States and have done so. So in a net, net, net basis, I don't think we are at a horrible disadvantage.

Senator McINTYRE. How do you see the future growth of foreign banking activity in this country particularly as related to wholesale versus retail operations?

Mr. PLATTEN. I would think they would continue to grow on a wholesale basis and some banks might decide to do a retail business. As our economy grows, and it gives every indication of growing, why, they probably would grow with it, the same way we would expect to grow ourselves.

On a relative basis. I don't know what the figures will be 10 years from now, but it isn't something that would scare me.

Senator McINTYRE. I take it you would agree the Federal Government may have a general interest in having a better interest over the nature and scope of foreign banking activity in the United States? You would agree would you not that the Federal Government has a legitimate interest?

Mr. PLATTEN. I think we have a legitimate interest which is presently being exercised.

Senator McINTYRE. That is on a voluntary basis?

Mr. PLATTEN. Yes, basically, there are State laws obviously which the Federal authorities have some impact on.

Senator McINTYRE. One of the things Governor Mitchell points to is the rapid growth. I find Congress always waits until we get into a mess, then we try to legislate out of it. So I was wondering if it wouldn't be better to move in this direction now while it can be controlled, set up a Fed system while there is no crisis at hand. You can't foresee any crisis, either can I.

But if growth continues, and I think you think it is going to continue——

Mr. PLATTEN. But on a relative basis, I don't think as our economy grows that foreign banking won't grow in this country. I think it will. But I think our own domestic banks will grow also.

Senator McINTYRE. I noted the other day when Governor Mitchell was telling us about giving us figures of the growth, what, $24 billion in total assets in 1972 to something like $56 billion in 1975.

I wondered about the growth of domestic banks during that period in order to put that growth in perspective.

Mr. PLATTEN. I don't know, to be honest with you, just what our growth has been.

But I would say that the percentage growth of the foreign banks in that decade or whatever it was the Governor used had to be very substantial, because it was from square 1, or a standing start, almost. It hasn't been until relatively recently with the foreign corporations coming over into this market in a very decided way that you have had the growth of this foreign banking in this country.

So from square 1 to $54 billion or $57 billion, whatever it is, is a very big percentage growth. I would assume it is a bigger percentage growth than our own banking system in absolute dollars now.

Senator McINTYRE. Would you agree that there may be legitimate interest in increasing the Fed supervisory role over the reserves of foreign banks in this country short of Federal mandatory membership?

Mr. PLATTEN. I think they have control now. I think voluntary control is very effective. I would point out that I think Lord O'Brien is the master of voluntary control.

The Bank of England, which he headed until just recently, all it had to do was perhaps not even just make a phone call. They just have to lift an eyebrow and all of a sudden everybody fell in line.

I think our own voluntary system here works perhaps not quite as well as that. We haven't been doing it as long, but it is well on the way.

Senator McINTYRE. Supposing we take the horrible step, as you see it, and extend the dual banking system to foreign banks by means of a Federal chartering or licensing alternative.

Should this, in your opinion, most appropriately be administered by the Federal Reserve, or should it more closely parallel the U.S.

banking structure to be administered by Treasury or perhaps the Comptroller?

Mr. PLATTEN. You have eliminated the State banking charter as an option, is that right?

Senator McINTYRE. How have we eliminated it?

Mr. PLATTEN. I thought your question——

Senator McINTYRE. I will go over it again.

In other words, the Federal Government comes in and becomes part of the dual banking system to foreign banks by means of Federal chartering or licensing. Who would be most appropriate to administer that, the Federal Reserve or Comptroller of the Currency?

Mr. PLATTEN. I hate to answer that question, because I don't believe in it.

Senator McINTYRE. I am asking for advice on the thing, I don't care whether you believe in it or not. You ought to have some idea.

Mr. PLATTEN. I would say at this point the Fed is a very busy organization.

Senator McINTYRE. You would like them to quiet down.

Mr. PLATTEN. No; I didn't say that. They are doing their job, God bless them.

But I just say there is a question of how much can be handled under one roof. I hope I have avoided answering your question.

Senator McINTYRE. Well, I don't want you to suffer any more than you already have.

In your statement, you state that foreign-owned banks are under present law in precisely the same position as domestically owned banks.

How can this be so in light of the fact that at present, foreign banks, apart from subsidiaries, have no Federal option?

Mr. PLATTEN. They can be under the Federal Reserve under the Bank Holding Company Act as subsidiaries.

Senator McINTYRE. Could they be so under agencies or branches? Would that be true as far as agencies or branches are concerned?

Mr. PLATTEN. Counsel says no.

Senator McINTYRE. You ask what logic is there in the United States permitting a West German bank the right to have a branch only in Chicago if West Germany permits a U.S. bank to have branches in Frankfurt and Munich.

Isn't the answer that we would be permitting a German bank the same rights we permit to our own banks and vice versa, and isn't this reciprocity in the true sense?

Mr. PLATTEN. But we are not doing that if this bill goes through, necessarily. Cou have 50 States with 50 State banking departments, and the States are sovereign in the sense of who can branch there.

Senator McINTYRE. Mr. Platten, I interpret your testimony to support the proposition that the States should be free to decide the interstate banking issue.

As you know, this subcommittee is engaged in an overall study of Federal branching policy.

Looking ahead, do you anticipate that the position of the New York clearinghouse banks with regard to interstate branching will be that the States should be free to decide the issue?

Mr. PLATTEN. I think that is so, sir.

Senator McINTYRE. We have just sent down the same memorandum. Have you had a chance to read or see this at all?

Mr. PLATTEN. I am afraid I have not.

Senator McINTYRE. In that case, because it is getting late, I would just like you to answer that for the record, what your reaction to this proposal is.

[The following information was received for the record:]

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February 23, 1976

The Hon. Thomas J. McIntyre, Chairman
Subcommittee on Financial Institutions
Committee on Banking, Housing and Urban
Affairs
United States Senate
Washington, D.C. 20510

Re: <u>Proposals with Respect to S.958</u>

Dear Senator McIntyre:

At the close of the hearings on S.958 on January 30, you asked for the comments of the Institute of Foreign Bankers on why public policy objectives would not be adequately met by a seven-point proposal which you handed us. The comments of the Institute of Foreign Bankers, which follow, are based on discussion at a recent meeting of the Trustees of the Institute. Before commenting, we wish to thank you, those of your Subcommittee attending the January 30 hearing, and your able staff counsel, Mr. Bill Weber, for the close attention and courtesy accorded our witnesses at the hearing.

In order that our comments be fully understood, we take the liberty of attaching hereto our interpretation of the seven-point proposal. We would appreciate hearing from you or your staff if our interpretation is not consistent with your intentions in any respect.

We make the general comment that this is the first proposal which attempts to define the precise need for new legislation and to confine the proposed change to meeting that need. We find ourselves able to agree with much of the proposal. Our more specific comments are as follows:

1. <u>Federal Option</u>. We fully concur in the principle that foreign banks should have the same election to organize under state or Federal law as domestic banks.

We appreciate recognition that this election cannot be real unless the foreign bank can control its national bank subsidiary by appointing its own foreign personnel to at least the majority of the positions on the Board of Directors. We doubt the need for legislation authorizing Federal licensing of branches and there is clearly no need for Federal licensing of agencies in the absence of Federal prohibitions against domestic deposits We would not expect the typical U.S. banking business undertaken by foreign banks to take advantage of this opportunity for organizing under Federal law if it compels as it probably must, mandatory membership in the Federal Reserve System. We believe that the benefits of System membership are outweighed by its burdens for the types of banking businesses conducted by most foreign banks in the United States. If a Federal option for foreign banks is decided upon, it should also include foreign bank eligibility for ownership of Edge Act Corporations, an option more likely to be used than Federal incorporation or licensing of a bank.

2. Optional System Membership. We concur in the proposal for continuing the state option for chartering foreign bank subsidiaries and licensing foreign bank branches and agencies We also concur in continuing the option for subsidiaries to join the Federal Reserve System or to be non-members. The elaborate legislation necessary for branches to be able to join the System seems unnecessary as it is not likely to be used.

3. Reserve Requirements. We assume the the "more direct handle" for the Federal Reserve Board to influence foreign bank reserves would be something short of subjecting the U S offices of foreign banks to existing Federal reserve requirements. We suggest that there is a potential not yet fully utilized for carrying out Federal monetary policy through cooperation with the money market states. Accordingly, we would implement this proposal with an appropriate congressional expression to stimulate the Federal Reserve Board and the key state banking supervisors to establish cooperative procedures to assure prompt state responses to changes in Federal reserve rates and to induce the Federal Reserve Board to report periodically to the congressional banking committees on the results of such cooperation. If more is needed, consideration should be given to requiring states designated by the Federal Reserve Board to apply Federal Reserve rates. With respect to the inflow and outflow of funds of foreign banks existing reserve requirement practices have little potential to deal with extraordinary economic conditions causing international movements of funds so large as to threaten U.S. monetary

policy. Such conditions may require emergency measures which cannot be determined at this time They might take the form of international agreement or they might require legislation in which case the target is very likely to be much broader than U S offices of foreign banks. Except in extreme circumstances probably not yet experienced, the size of these movements has little impact on the supply of money and credit in the United States see the statement submitted by Golembe Associates). Therefore, there appears to be no need for reserve requirements unique to the U.S. offices of foreign banks. (The Federal Reserve Board is considering unique treatment, which its proposed bill would authorize but which it has not discussed at the House or Senate hearings on foreign bank legislation: (a) reserves applied to agency credit balances; and (b) reserves applied to advances from home offices). If the Regulation M reserves applied to offshore Eurodollar deposits have any value as applied to U.S offices of foreign banks reliance should continue to be placed on the current universal voluntary compliance with Regulation M reserves by the U.S. offices of foreign banks at the request of the Federal Reserve Board. Finally, we wish to qualify the foregoing comments on reserve requirements by expressing our strong belief that Congress whether or not legislation is enacted, should assure that mandatory reserve requirements do not become discriminatory, that is to say that they are not made applicable solely to United States offices of foreign banks by statute or regulation.

4. Reporting. Federal registration would add nothing to effective reporting requirements and would be inappropriate for banks organized under state law Existing Federal reporting requirements for U.S. offices of foreign banks are supported by both Federal statutes and the powers of state bank supervisors. Although there has been no demonstration that these reports are inadequate or that they cannot be improved by administrative action by the Federal Reserve Board we have no objection to any reasonable measures to assure that the Federal Government is adequately informed about the activities of U.S. offices of foreign banks whether for purposes of monetary policy, foreign policy or possible legislation.

5. FDIC Insurance. Optional FDIC insurance coverage should be confined to comestic deposits of foreign bank branches. It should not be applied to foreign bank agencies (or to New York investment companies if they are to be covered) on the erroneous theory that credit balances are the same as deposits. The practicality of this option depends upon satisfying the FDIC with regard to safeguards for the insurance fund. Accordingly,

we urge that, rather than attempt to legislate a solution now of the safeguard problem, FDIC consult with foreign banks and with appropriate state bank supervisors and thereafter report to Congress on the need, risks and possible safeguards for such insurance.

6. Non-Bank Holdings. We consur that the best way to avoid the difficult grandfather issue at this time is to avoid amending the Bank Holding Company Act and that the only serious issue is securities affiliations. In order to effectively deter expansion of securities affiliates pending congressional consideration of amendments of the Glass-Steagall Act and its possible application to foreign banks, we suggest that the banking committees of Congress express in a report the intention to give a liberal period of time for adjustment to an amended Glass-Steagall Act to those foreign banks which do not add new securities affiliations or new activities of existing securities affiliations after the date of that report. We would hope that any amendment to the Glass-Steagall Act having the effect of requiring divestitures would provide for the protection of existing investments, but that would be an issue for hearings other than those held on S.958.

7. Multi-State Banking. Your hearing record makes it clear that there is no need, in terms of fair competition or otherwise, to impose one-state restrictions on agencies and branches of foreign banks. We agree that reliance on the decisions of the financial center states on whether to admit foreign banks has a precedent in Section 3(d) of the Bank Holding Company Act.

In conclusion, we believe that the sensible positions of the proposal add up to little which requires new legislation at this time. We are concerned that a foreign bank bill at this time would be encumbered with protectionist and discriminatory provisions in view of the current climate of opinion in the United States. For this very practical reason, we hope that the Senate does not start down the road of foreign bank legislation, ending up with a bill exposed to the legislative process in both Houses and to the trading which might result in conference with the House. An alternative to legislation at this time could be a report of your Subcommittee or the full Committee which contained, along with your findings, expressions with respect to Federal-state cooperation on reserve requirements, FDIC investigation of safeguards, adequate reports to the Federal Government, and warning about expansion in the Glass-Steagall area.

We appreciate the opportunity to comment on the thoughtful proposal which you handed us at the hearings. We are available at any time to consult with you about your proposal.

Respectfully yours,

SHAW, PITTMAN, POTTS & TROWBRIDGE

by ______________________
Steuart L. Pittman
Counsel for
Institute of Foreign Bankers

Attachment

cc: Senator Stevenson
Mr. Bill Weber

Institute of Foreign Bankers
Interpretation of the Seven-Point Proposal
Received from Chairman McIntyre

1. Foreign banks would have the option to incorporate a subsidiary or have licensed a branch under Federal as well as state law. The Federal option would be subject to Federal supervision and subject to mandatory membership in the Federal Reserve System. In the case of subsidiaries, no directors would be required to be U.S. nationals. The existing National Bank Act policies with respect to geographic location would be applied.

2. Foreign bank offices in the U.S. would not be subject to mandatory Federal Reserve System membership.

3. The Federal Reserve Board ability to influence reserve ratios applicable to state chartered or licensed offices of foreign banks would be improved, but only to the extent required to avoid impairment of monetary policy.

4. Assure the ability of the Federal Government to collect all information about foreign bank activities necessary to carry out Federal banking policy, including information bearing on the possible need for future legislation.

5. Optional FDIC insurance would be made available to foreign bank branches, which accept domestic deposits, with appropriate safeguards to protect the FDIC insurance fund.

6. Instead of bringing foreign bank branches and agencies under the prohibitions of Section 4 of the Bank Holding Company Act, foreign banks would be warned against expanding their securities operations pending resolution of the Glass-Steagall issue, with the expectation that the Glass-Steagall Act as ultimately amended might apply to securities firms controlled by foreign banks.

7. Instead of amending the Bank Holding Company Act to bring foreign bank branches and agencies under the one-state restrictions proposed by the Federal Reserve Board, foreign bank branches and agencies would continue to be allowed to locate as permitted by state law (or by Federal law if a Federal option is available and elected).

March 31, 1976

MEMORANDUM

Re: Legislation Regulating Foreign Bank Operations in the United States

Introduction

The New York Clearing House Association has prepared this memorandum in response to an outline of foreign bank legislation developed by the Financial Institutions Subcommittee of the Senate Banking, Housing and Urban Affairs Committee. The outline was presented to the Clearing House Committee Chairman at the conclusion of his testimony before the Subcommittee on Senate Bill 958, the Foreign Bank Act of 1975.

The stated assumption of the outline is a decision by Congress that it needs "to establish a better federal handle over foreign banking in the United States". While the Clearing House believes that additional legislation regulating foreign banks is neither necessary nor desirable, the following comments are offered in an effort to be of assistance to the Subcommittee.

Proposal No. 1

The Clearing House endorses the first proposal, which would extend the dual banking system to foreign banks by providing a federal licensing or chartering option. Allegations that foreign banks enjoy favored treatment in the United States have obscured the fact that existing legislation and chartering policies actually discriminate against foreign banks. Less than ten states permit foreign bank operations of any sort; most of the states which permit foreign bank entry impose restrictions on powers, geographic location or both; national bank charters are made unattractive for foreign banks by the requirement that all directors/ be United States citizens; foreign banks are prohibited from owning Edge Act Corporations, the vehicle through which American banks conduct international business in a number of major financial centers. A federal chartering option would relieve this discrimination against foreign banks.

A federal chartering option would benefit not only foreign banks, but United States trade and commerce as well. The removal of entry barriers would result in increased competition, with inevitable benefit for American business and the American consumer. The availability of

additional sources of financing would be of particular assistance to companies engaged in international trade.

As indicated by the first proposal, one step in relieving the discrimination against foreign banks would be elimination of the restriction on nationality of national bank directors. In this regard, S.958 does not afford adequate relief. A pure nondiscriminatory policy would provide for the elimination of all restrictions on director nationality. S.958, in contrast, would require that two-thirds of the directors of a foreign-owned national bank be United States citizens -- a requirement that may continue to preclude a meaningful national bank chartering alternative.*

The first proposal suggests that selection of the federal chartering option would involve mandatory Federal Reserve System membership. While the Clearing House has not attempted any formal poll of foreign bankers, we understand that they would regard such a requirement as both reasonable and acceptable. There is a basic difference between such a

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* The Federal Reserve Board's original proposal for foreign bank legislation was preferable in that it would have permitted as many as 50% of the directors to be foreign nationals. The Federal Reserve's memorandum describing the differences between the original proposal and S.958 does not provide any explanation of this revision.

requirement and a requirement (as in S.958) that all foreign bank operations in the United States, irrespective of their charter, become Federal Reserve members. The former follows the principle of equality of treatment, since both domestic and foreign banks with federal charters would be required to assume Federal Reserve membership. The latter is discriminatory, since the membership requirement for state chartered operations would be imposed on only foreign banks.

The first proposal also suggests that geographic location of federal chartered foreign bank operations would be left to the federal regulator. This suggestion is appropriate.

The Clearing House believes that a meaningful federal chartering option for foreign banks should include at least three basic elements. First, as indicated in the Subcommittee's outline, the restrictions on nationality of national bank directors should be removed. Second, a federal branch charter, similar in concept to Section 18 of S.958, should be made available. Third, the restrictions on the nationality of owners of Edge Act Corporations, which presently preclude foreign bank ownership of such Corporations, should be removed.

Proposal No. 2

The Clearing House endorses the second proposal, which would permit each state to make its own decisions regarding the state chartering of foreign bank operations.* Federal Reserve membership for state chartered operations would be voluntary.

This second proposal, which represents a continuation of present practice, is consistent with two important policy goals. First, there would be true equality of treatment. Federal Reserve membership would be optional for both foreign and domestic banks operating under state charters. Second, the dual banking system would be preserved. The various states would have the opportunity to adopt chartering policies which were deemed best suited to the particular needs of their constituencies.

Proposal No. 3

The proposal to provide the Federal Reserve with a more direct "handle" over foreign bank reserves would be troublesome if the handle consists of a mandatory reserve program. Such a program would discriminate against foreign banks -- and thus conflict with the policy goal of equality

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* The effect of the second proposal is to permit limited multi-state operations by foreign banks. The issue of multi-state banking is addressed in the analysis of the seventh proposal.

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of treatment -- because all domestic banks are not subject to federal reserve requirements.

It has been suggested that the discriminatory aspect of a mandatory reserve requirement for foreign banks is largely theoretical. The argument is made that although domestic banks are not required to become Federal Reserve members, all the large domestic banks with which foreign banks compete are in fact members. Imposition of reserve requirements on foreign banks is then justified as restoring rather than diminishing competitive equality.

The Clearing House believes that a mandatory federal reserve program for foreign banks would be discriminatory in practice as well as in principle. At the present time, the cost of funds for foreign banks operating in the United States is at least equal to, if not higher than, the cost for domestic banks. Virtually all foreign banks operating in the United States are subject to state reserve requirements.* Of even greater importance, only a handful of foreign banks operating in this country have ready access to demand deposits; all the others must fund their loans with purchased funds. Accordingly, the imposition of additional

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* These state requirements are admittedly less onerous than the federal reserve requirements, because the states permit nonmember banks to earn interest on reserve assets.

reserve requirements would place foreign banks at a significant competitive disadvantage.

A mandatory reserve program for foreign banks is presumably justified on the basis of increasing the Federal Reserve's capability to effect monetary control. It should be recognized, however, that a number of economic analysts have questioned whether additional reserve requirements would have an effective impact on monetary control. Starleaf, Reserve Policies and Monetary Control, 30 Journal of Finance 955 (1975); Robertson and Phillips, "Optional Affiliation with the Federal Reserve System for Reserve Purposes" (1974). The Federal Reserve's chief instrument for monetary control has not been reserve requirements, but rather its open market operations.

Even if reserve requirements can be effectively used for monetary control purposes, it is doubtful that the imposition of reserve requirements on foreign banks alone would yield any significant results. The deposits of foreign banks which are not presently subject to federal reserve requirements represent less than 2% of total commercial bank deposits in the United States.* Nonmember domestic

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* Approximately one-third of the deposits held by foreign banks in the United States are subject to federal reserve requirements as a result of voluntary decisions that subsidiary banks should become Federal Reserve members.

banks hold aggregate deposits far in excess of those of foreign bank branches. The aggregate amount of loans by savings and loan associations, mutual savings banks, life insurance companies and finance companies is 1600% larger than foreign bank loans.

In studying the necessity of a mandatory reserve program for foreign banks, an important consideration should be the Federal Reserve's successful use of voluntary programs. When the 1973 money crunch resulted in a rapid repatriation of Eurodollars, the Federal Reserve requested that foreign banks operating in the United States voluntarily maintain the same 8% reserves against funds borrowed abroad as were required for domestic banks. Virtually all foreign banks are reported to have complied with this request. At the same time, the Federal Reserve imposed a so-called "marginal" reserve requirement of 3% on certain types of purchased funds, and requested foreign banks to observe this reserve requirement. Again, the foreign banks complied on a voluntary basis. The foreign bank record of compliance with the Voluntary Foreign Credit Restraints is reported to have equaled that of domestic banks.

Proposal No. 4

The fourth proposal would "superimpose a federal registration and reporting requirement over foreign banks

to permit the Federal government to better monitor their activities".*

The Subcommittee expresses a legitimate concern that federal authorities should receive information regarding the activities of foreign banks in the United States. Nonetheless, this fourth proposal conflicts with the policy of equality of treatment, since all domestic banks are not subject to federal reporting requirements. Accordingly, the Clearing House recommends that a mandatory reporting system should not be legislatively imposed unless present methods of obtaining information cease to be effective.

The Federal Reserve Board presently receives considerable information regarding foreign bank operations. Foreign banks submit detailed monthly reports to the Board, including amounts of deposits and loans by designated categories, geographical distribution of deposits and loans, and holdings of securities. Foreign banks are reported to have complied with every request for additional information. The New York State Banking Department developed its examination

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* This fourth proposal is presumably directed to state chartered operations. The imposition of federal reporting requirements on those foreign banks which select a federal charter would be a natural condition of the federal charter.

format for foreign bank branches and agencies in conjunction with the Federal Reserve, and the examination reports are furnished to the Federal Reserve. The state banking departments consult with the Federal Reserve Board on foreign bank applications to charter state facilities. The Clearing House believes that the success of these present information gathering processes renders unnecessary a mandatory reporting program which would discriminate against foreign banks.

If Congress does determine that a mandatory federal reporting program is necessary, two guidelines should be followed in developing such a program. First, no reports should be required for banking activities conducted outside the United States. As recognized by the Federal Reserve Board in Section 8 of S.958, reporting requirements for foreign operations would in many cases conflict with foreign law and effectively foreclose the United States market to a number of foreign banks. Second, the reporting requirements for foreign banks should not be more onerous than those imposed on domestic banks.

Proposal No. 5

The fifth proposal would make FDIC insurance available to any foreign bank branch or agency which accepts domestic deposits, provided that there were appropriate safeguards to protect the insurance fund. The Clearing

House believes that the availability of FDIC insurance to foreign banks is consistent with the basic goal of equality of treatment, and is accordingly desirable as a matter of principle.

There is, however, a question as to the feasibility of implementing approriate safeguards for foreign banking entities which are not separately incorporated. The problem is that there can be little or no control over the institution which is primarily responsible for the financial health and solvency of a foreign bank branch -- the foreign bank head office -- or over the shifting of assets and liabilities between the head office and foreign offices. Many bankers and bank regulators, including Governor Mitchell,* have concluded that the ultimate responsibility for the safety and well-being of a branch in a foreign country must rest with the home office and the bank regulatory authorities of the home country.

The absence of FDIC insurance for foreign bank branches does not, in practice, seriously impair their competitive position. Few foreign bank depositors are concerned with deposit insurance, since most accounts far exceed the FDIC insurance maximum.

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* Remarks by Governor Mitchell, "U.S. Regulatory and Monetary Policies and the International Operations of U.S. Banks", at New York City Conference on International Monetary Problems, June 10, 1974.

Proposal No. 6

As the Clearing House understands Proposal No. 6, no legislative action would be taken with respect to foreign banks' securities affiliates pending completion of Congress' general review of the Glass-Steagall Act.* During this interval, foreign banks would be cautioned against expansion of their securities activities. Upon resolution of the various Glass-Steagall issues, that Act would be applied equally to domestic and foreign banks and there would be no grandfather privileges.

The Clearing House believes that legislation imposing additional Glass-Steagall Act restrictions on foreign banks would not serve the purposes for which the Act was intended. Of even greater importance, legislation lacking grandfather rights would be highly inequitable.

The Glass-Steagall Act's restrictions against the combination of commercial banking and certain securities activities are presently applied to all foreign banks which own bank subsidiaries in the United States.** Accordingly,

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* As used in this memorandum, the term "Glass-Steagall Act" refers to only those provisions of the Banking Act of 1933 which restrict bank securities activities.

** Those subsidiaries which are Federal Reserve members are subject to precisely the same Glass-Steagall limitations as domestically owned member banks. Foreign bank subsidiaries which have not opted for Federal Reserve membership have been effectively subjected to the same limitations by the Federal Reserve Board's administration of Section 4 of the Bank Holding Company Act. Banco di Roma, 1972 Fed. Res. Bull. 940.

application of the Glass-Steagall Act to foreign banks would actually affect only those foreign banks which conduct their United States banking operations through branches or agencies.

Imposition of the Glass-Steagall restrictions on foreign banks with United States branches and agencies would not significantly advance the Act's objectives of protecting depositors and banks from the risks involved in certain securities activities. Those foreign banks which operate securities affiliates in the United States also engage in securities activities in their home countries -- as is permitted by the laws of their home countries. It is unlikely that limitations on securities activities conducted in the United States would have a meaningful effect on the solvency of foreign bank branches or agencies, when the foreign bank itself engages in a full range of securities activities in its home country. Application of Glass-Steagall restrictions to foreign banks which operate only agencies appears particularly unnecessary, since such agencies have no depositors to protect.

Proponents of legislation which would prohibit foreign bank securities affiliates have attempted to justify their position on the basis of restoring competitive equality with domestic banks. The weakness of this argument is demonstrated by the absence of complaints from domestic banks.

The most vocal supporters of legislation to correct an unfair competitive advantage are normally those competitors which are operating at a disadvantage.

The competitive advantage argument is also nullified by the modest scope of foreign bank securities affiliates. There are only ten such affiliates in the United States; the largest ranks 49th (on the basis of capital), and the next two largest rank 81st and 99th, respectively. Securities affiliates' services are for the most part limited to dealings in United States securities for foreign customers, and thus merely represent an extension of on-going securities activities being performed in the home country.*

If Congress does decide to impose additional restrictions on foreign bank securities activities in the United States, the Clearing House believes that grandfather rights must be provided in order to avoid a highly inequitable result. Foreign banks established their securities affiliates in accordance with what was then the applicable law.

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* Remarks by Governor Mitchell before the annual convention of the Bankers' Association for Foreign Trade, April 10, 1974; Banco di Roma, 1972 Fed. Res. Bull. 940.

A number of these affiliates have been in operation for many years. Many represent considerable investments of personnel and funds - investments which would be rendered largely valueless in the absence of grandfather rights. There appears to be no reason for refusing grandfather rights which is sufficiently compelling to justify the forced termination of long-standing business operations.

A failure to grant grandfather rights would also clash with the policy of equality of treatment for domestic and foreign banks. Under the 1970 Amendments to the Bank Holding Company Act, non-banking activities were afforded grandfather protection from the Section 4 prohibition against such activities. Consequently, a domestic bank holding company which had owned both a nonmember bank and a securities affiliate on the grandfather date was permitted to retain the securities affiliate. In contrast, all foreign banks would be required to divest their securities affiliates. Additional precedent for providing grandfather rights to foreign bank securities affiliates is found in Section 3(d) of the Bank Holding Company Act (multi-state bank subsidiaries) and the McFadden Act (branch banking).

Proposal No. 7

As the Clearing House understands Proposal No. 7, the individual states could continue to charter foreign bank

entities regardless of whether the foreign bank applicant conducted operations in other states. Grandfather provisions for multi-state operations would not be included because they would be unnecessary.

The Clearing House endorses this seventh proposal. It advances numerous public policy objectives, including equality of treatment, increased competition, development of United States cities as financial and trade centers, preservation of the dual banking system and increased funding for American industry and commerce.

As the Subcommittee's outline correctly recognizes, United States banks are not placed at any real competitive disadvantage as a result of foreign banks' capacity to engage in multi-state operations. There are two basic reasons for this absence of competitive inequality.

First, the capacity of foreign banks to engage in multi-state operations is quite limited. As is the case with domestic banks, foreign banks cannot engage in full service banking operations through bank subsidiaries in more than one state. Operations in a second state can only be conducted through a branch or agency, and such entities are limited both as to their powers and geographic location. An agency cannot accept deposits, and in California even a branch is, in effect, prohibited from receiving domestic deposits. A

foreign bank branch in Illinois must be located in an approximately two mile square area. Consequently, multi-state operations of foreign banks are largely limited to the financing of international transactions.

Second, domestic banks are provided legal vehicles with which to compete against foreign banks engaged in multi-state operations - Edge Act Corporations. These Corporations, which cannot be chartered by foreign banks, are established by major domestic banks in financial centers outside their home cities. The powers of Edge Act Corporations are generally limited to the financing of international trade, but, as mentioned, the multi-state operations of foreign banks are effectively subject to the same limitation.

The underlying policy of the seventh proposal is state home rule. As the Subcommittee's outline accurately notes, the precedent for such a policy is established by Section 3(d) of the Bank Holding Company Act. Under Section 3(d), the individual states are authorized to formulate their own policies regarding the acquisition of in-state banks by out-of-state holding companies.

The Subcommittee's outline further recognizes that no legislation is necessary to implement a similar home rule structure for foreign bank branches and agencies. At the present time, a state can deny a branch or agency charter to

a foreign bank on the basis of its banking operations in other states, or, alternatively, a state can determine that multistate operations are not objectionable.*

Sections 3(2) and 3(3) of S.958 may also be intended to establish a state home rule policy for foreign bank charters. These provisions are, however, unnecessary since such a policy is presently in effect. Furthermore, the attempt to graft a proposal relating to foreign banks on an alien body of law, the Bank Holding Company Act, results in a number of serious technical problems. These technical problems are discussed in detail in Exhibit 1 to this memorandum.**

Respectfully submitted,

THE NEW YORK CLEARING HOUSE ASSOCIATION

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* In contrast, the Section 3(d) legislation was required in order to provide states with control over acquisitions of in-state banks by out-of-state holding companies.

** Exhibit 1 consists of pages 36 to 44 of a Clearing House memorandum outlining technical defects in S.958. The memorandum was presented as an appendix to the written testimony of the Clearing House Committee Chairman presented to the Subcommittee.

EXHIBIT 1

20. <u>Section 3(3); None</u>

Section 3(3) of FBA-74 adds Sections 3(g) and 3(h) to BHCA for the purpose of restricting the multi-state operations of foreign banks through branches and agencies. Section 3(h) will be discussed first because it applies to multi-state expansion during the period between the FBA-74 grandfather date (*i.e.*, the date on which the legislation was first introduced in Congress) and the date of enactment of FBA-74. This period is hereinafter referred to as the "Legislative Interval". Section 3(g) covers multi-state expansion subsequent to enactment of FBA-74.

Section 3(h) can be viewed as somewhat discriminatory when its requirements are compared to those which Section 3(d) imposed in 1966 on domestic multi-bank holding companies. Section 3(h) effectively requires a foreign bank to divest itself of any branches and agencies outside of its home state which were acquired in the Legislative Interval. In contrast, the multi-state prohibition imposed on domestic bank holding companies by Section 3(d) applied only prospectively from the date of that Section's enactment.

Section 3(h) contains two drafting deficiencies. First, the divestiture requirement applies only to branches and agencies. A foreign bank with a branch established in one state before the grandfather date could acquire a bank in a second state during the Legislative Interval and not be required to divest itself of either. However, if the foreign bank established these facilities in the reverse order (i.e., the bank was established before and the branch after the grandfather date), divestiture of the branch would be required.

Section 3(h) is also deficient in that it fails to provide an exemption for a foreign bank branch opened during the Legislative Interval, if a statute of the entry state authorizes the branch. The proposed Section 3(g) permits a foreign bank to operate a branch in an entry state which has a statute specifically authorizing the branch, but this privilege only extends to those branches which are opened after enactment of FBA-74. In other words, even if a state were to pass a multi-state banking bill during the Legislative Interval, a foreign bank with a banking facility in another state would be required to wait until passage of FBA-74 before opening a branch in the first state. Such a result appears illogical, and an appropriate exemption has been included in the attached mark-up by amending Section 3(g).

21. Section 3(3); None

Section 3(g) can be divided into four parts. The first sentence establishes the basic grandfather provision.* The second sentence restricts future foreign bank multi-state operations through branches and agencies. The third sentence exempts conversions of branches and agencies into other forms of banking institutions from the multi-state restriction. The fourth sentence limits this conversion privilege by prohibiting, with certain grandfather exemptions, a foreign bank to operate two different types of banking facilities in the same state.

The Section 3(g) restriction on foreign banks' multi-state banking activities can be regarded as discriminatory, because the test imposed for entry into a second state is more difficult for a foreign bank branch than for a domestic bank. Under both Sections 3(d) and 3(g), the acquisition of a banking facility in an entry state requires specific authorization by the statute laws of that state. Section 3(g) also requires that the establishment of foreign bank branches and agencies in an entry state must be authorized by legislation in the home state. In contrast, Section 3(d) does not impose a home state approval requirement on domestic bank holding companies.

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* A grandfather provision would not be necessary absent the divestiture requirement added by Section 3(h). The restrictions in Sections 3(d) and 3(g) on multi-state banking apply only to those facilities opened after enactment of FBA-74.

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The addition of this requirement of home state approval in Section 3(g) has no relevance to the original purpose of the multi-state restriction. Section 3(d) was introduced into BHCA to enable a state to prevent entry by a bank holding company with banking operations in another state, rather than to provide a home state with authority over its banks' out-of-state operations - authority which in large measure the home state already possesses.

In addition to this basic policy issue, there are a number of drafting questions created by the second sentence of Section 3(g).

First, there is a question as to the form of an entry state statute which would satisfy Section 3(g). The requirement that there be authorization "by language to that effect and not merely by implication" would presumably not be satisfied by a statute which simply permitted state-chartered foreign bank branches, without reference to the foreign banks' other United States operations. However, is there any realistic need for more specific statutory language with respect to state-chartered branches, since the entry state's banking authorities would have full power to approve or deny applications for such branches? As mentioned, the fear of pre-emption of state bank regulation - the basis for enactment of Section 3(d) - would not be at issue when a

foreign bank applies for a state-chartered branch.*

A second question arises from the requirement that the entry state statute specifically authorize a branch or agency of "an out-of-State bank". Does this quoted language mean that the statute must allow branching by banks other than foreign banks (which are not "banks" as defined in BHCA)? In other words, would a statute qualify if it authorized branches of foreign banks with operations in other states, but not branches of out-of-state domestic banks? The attached mark-up adopts language so as to permit a limited entry statute.

Third, the entry state statutory requirement in Section 3(g) contains a phrase which is not found in Section 3(d). This additional phrase requires that entry be specifically authorized for a bank "organized under the laws of the State in which the operations of [the] bank holding company ... are principally conducted". Read literally, Section 3(g) may not be satisfied by a general statute which authorizes entry by all out-of-state banks, and this additional requirement

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* There would be a potential pre-emption problem if the foreign bank opened a federal branch rather than a state-chartered branch. However, this problem could perhaps be best resolved in Section 18 of FBA-74, by requiring that the establishment of a federal branch in an entry state be approved by that state's banking authorities.

has been deleted in the attached mark-up.*

Fourth, the availability of the Section 3(g) grandfather privileges is unclear in the event of a merger of two foreign banks which maintain banking facilities in different states. A company covered in 1975 may retain and operate only branches and agencies "which <u>such</u> company had established on or before December 3, 1974". The surviving foreign bank would not itself have established the United States branches of the merging bank prior to that date.** As previously discussed in connection with Section 3(a)(5) of BHCA, an exemption for mergers of foreign banks may be appropriate.

Fifth, the first proviso in Section 3(g) establishes a different requirement for foreign bank branches in an entry state if the foreign bank operated a branch in the state prior to the grandfather date. In such a situation, the requisite entry state statute must merely "specifically authorize" the additional branch; there is no requirement that the statute contain "language to that effect and [be]

* The Board provides no explanation of this phrase in either the Section Analysis or the Principal Features Memorandum.

** The identical problem would occur under Section 3(d) if the merging bank owned a subsidiary bank in the United States.

not merely by implication". Presumably, a general statute authorizing foreign bank branching would satisfy the requirements of the proviso.

The imposition of any federal requirement on the establishment of branches in a state in which a foreign bank has grandfathered banking operations can be regarded as discriminatory. Section 3 of BHCA effectively permits a domestic bank holding company to expand without federal restriction in a state in which it has a grandfathered bank, since Board approval is not required if banks are acquired by merger or asset acquisition. In an early case under BHCA, the courts refused to expand Section 3(d) by implication to cover such transactions. State of South Dakota v. National Bank of South Dakota, Sioux Falls, 335 F.2d 444 (8th Cir. 1964), cert. den., 379 U.S. 970 (1965). Accordingly, the attached mark-up deletes the requirement that additional branches in a grandfathered entry state be authorized by state statute.

Sixth, the wording of the first proviso raises a question as to the number of branches which may be established in an entry state in which the bank holding company is grandfathered. The proviso refers to the establishment of only "an additional branch". If it is intended to authorize multiple branches in an entry state under the terms of the proviso,

the word "an" should be replaced by "one or more".

The third sentence of Section 3(g) provides that the "conversion" or "change" of a grandfathered branch or agency into a "branch, agency or other form of banking organization" does not violate either Section 3(g) or Section 3(d). This exemption creates three questions.

First, there is uncertainty as to whether the phrase "other form of banking organization" would permit a foreign bank to replace a grandfathered branch with a full service bank. The literal meaning of the phrase and the reference in the third sentence to Section 3(d) suggest an affirmative answer. Further, the Section Analysis refers (at page 12) to the conversion of a branch into a corporation. However, while state statutes such as the New York Banking Law provide for "conversion" of an agency into a branch, or vice versa (Section 202-g), there is no similar provision for conversion into a full service bank. Any confusion could be avoided by including a specific reference to banks.

Second, a domestic bank subsidiary of a foreign bank would not be permitted to convert into a branch of the foreign bank. Such a transformation may provide certain advantages, primarily utilization of the parent foreign bank's higher lending limit. Accordingly, in the attached

mark-up the third sentence of Section 3(g) is amended to provide for such a conversion.

Third, pursuant to Section 18(c) of FBA-74, a state-chartered branch may convert into a federal branch. Such a conversion was presumably intended to qualify for the Section 3(g) conversion exemption, but it is uncertain as to whether the literal language of Section 3(g) accomplishes the intended result. Accordingly, the attached mark-up has been expanded to specifically include a Section 18(c) conversion.

The fourth sentence of Section 3(g) limits the conversion privilege by prohibiting a foreign bank to operate two different types of banking facilities in an entry state - with certain grandfather exemptions. There is a partial precedent for this restriction in Section 202-d of the New York Banking Law, which prohibits a foreign bank from maintaining both a branch and an agency. However, this New York statute is not as extensive as the proposed federal proscription, and several Canadian banks maintain both a trust company and an agency in New York. Further, if there is any justification for this limitation, it should seemingly apply in a home state as well as an entry state.

RESPONSE FROM THE E.E.C. BANKING FEDERATION TO THE PROPOSALS CONTAINED IN A PAPER DISTRIBUTED FOLLOWING THE HEARINGS BEFORE THE SENATE BANKING COMMITTEE ON THE FOREIGN BANK BILL 1975

Following the hearings before the Sub-Committee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs on the Foreign Bank Bill 1975 (S.958), a paper containing a number of proposals was handed to Lord O'Brien with a request for comments from the E.E.C. Banking Federation. The paper seeks an answer to the question whether the seven proposals set out therein would not adequately meet public policy objectives.

The paper has been examined by those concerned within the Member States of the European Community and it would appear that, in general, the proposals reflect a reasonable and constructive approach. We are not entirely clear about the precise implications in certain of the proposals and hope that the correct interpretation has been made. For clarity, certain assumptions have been set down against each item. The answers have been given on the basis of these assumptions and if the assumptions are incorrect, it would be important to the E.E.C. Banking Federation to learn of this so that they might make any necessary change in the answers given.

The proposals contained in the paper appear to have been drawn up with a view to meeting the difficulties with which the foreign banks would have been confronted if the Foreign Bank Bill had been enacted and the E.E.C. Banking Federation is, therefore, able to agree in principle with the general concept. It is necessary, however, to set out the following specific comments:-

Item - 1. Extend the dual banking system to foreign banks by granting them a Federal licensing or chartering option under the supervision of the agency which regulates national banks.

Present restrictions of nationality of directors could be waived.

As with national bank, this Federal option might carry with it mandatory Federal membership.

Similarly, as with national banks, geographic location would be left to the Federal regulator.

Assumption - that foreign banks will have the option to -

1. establish a subsidiary, no directors of which would have to be U.S. nationals, or,

2. establish a branch either under Federal legislation or State legislation.

If Federal legislation is chosen (which would carry with it Federal supervision), then membership of the Federal Reserve System would be mandatory. Federal licensing would not apply to agencies.

Answer -

This is acceptable as it would extend to foreign banks the same choice which domestic banks have of electing to operate under either State or Federal law. To take further the concept of non-discrimination, it would also be desirable to provide for the ownership by foreign banks of Edge Act corporations.

Item - 2. Leave the States free to charter foreign banking operations as they presently do with Fed membership purely voluntary.

Assumption - This item confirms part of 1 above about freedom of choice. "With Federal membership purely voluntary", the choice for subsidiaries to join the Federal Reserve System or not, as they wish, would be preserved.

Answer -

This is acceptable.

Item - 3. Give the Fed, perhaps, a more direct handle, if appropriate, over foreign bank reserves.

Answer -

At present, State subsidiaries and branches are subject to State reserve obligations, but they voluntarily conform to the marginal reserve requirements of regulation M.

If the proposal is merely to formalise this voluntary arrangement, this would be acceptable, although it is considered somewhat

superfluous. If, however, the Fed is to impose on foreign banks reserve requirements which are more onerous than those applicable to domestic banks, this would be discriminatory and therefore unacceptable.

Item - 4. If need be, superimpose a Federal registration and reporting requirement over foreign banks to permit the Federal government to better monitor their activities; then, to the extent such registration or reporting requirements indicate problems arising, legislative relief could then be sought, as appropriate.

Answer -

Provided a proposal of this kind would not be introduced in a way which discriminated unfavourably against the foreign banks but to monitor activities so that problems, if any, may be identified, it is an acceptable idea. In fact, this does not differ in principle from the suggestion made by the E.E.C. Banking Federation to Congressman Reuss (see attached).

It must be borne in mind that it is difficult for a bank to operate efficiently if it feels that it may be called upon to make dramatic changes in its activities and some protection against this would be desirable.

Item - 5. Make FDIC insurance available to any foreign bank office which accepts domestic deposits with appropriate safeguards to protect the insurance fund.

Assumption - FDIC insurance would be optional not mandatory.

Answer -

Optional membership of FDIC insurance by foreign bank branches taking domestic deposits is not objectionable if it covered domestic deposits of a level similar to those insured by domestic banks. However, the acceptability or otherwise of such FDIC cover to the foreign banks would depend very much on what is involved in "appropriate safeguards to protect the insurance fund".

Item - 6. Forget about grandfathering securities affiliates of foreign banks. Perhaps red flag

them not to expand their operations pending our resolution of the Glass-Steagall issue with the expectation that foreign securities affiliates might be able to expand or might have to contract their operations, depending upon what is permissible to U.S. banks.

Answer -

"Red flag them not to expand their operations" gives rise to certain doubts as to what exactly is meant. If the meaning was to impose on their volume of security business a kind of ceiling, this would hardly be compatible with the nature and efficiency of the operations concerned. The proposal would be more workable if the meaning was "not to expand their operations up to an extent which would appear globally unacceptable in relation to the total US security market".

If this concept was accepted - together with a prohibition of acquiring or establishing any additional security affiliates - the general line might be the following one: the Federal Reserve Board would be given the opportunity to provide for periodic review of the situation, before and after the resolution of the Glass Steagall issue. If such a review did show that the global situation had changed, or that the expansion of a particular bank required special consideration, then the FED would take appropriate measures, general or particular, with a view to avoiding any kind of upheaval, and in giving the bank or banks concerned reasonable time to contract its or their operations.

Item - 7. Forget about grandfathering in terms of multi-state operations, recognize the fact that at the present time at least U.S. banks are not at any real competitive disadvantage vis-a-vis foreign banks by virtue of multi-state operations, particularly when comparing apples to apples, and, therefore, let the States continue to invite foreign banks - if they want to - regardless of whether the foreign banks may be doing business elsewhere.

There is precedent for this already, is there not, in terms of multi-state reciprocity under the Bank Holding Company Act.

Assumption - that foreign banks would be allowed to continue existing multi-State operations, and expand them in accordance with State laws, and to open further branches and agencies in other States subject to State or Federal licence according to choice.

Answer --

We feel that there has been a wealth of evidence to the effect that foreign bank operations in more than one State have not constituted a competitive threat to domestic banks, but have been beneficial. The proposal is considered to be equitable. It is agreed that there is a precedent under the Bank Holding Company Act to the extent that it is open to any State to legislate to allow an out-of-State bank holding company to acquire a bank in the State concerned.

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April 1976

ıRACT FROM THE EVIDENCE PRESENTED BY THE E.E.C. BANKING FEDERATION
TO
E SUB-COMMITTEE ON FINANCIAL INSTITUTIONS, SUPERVISION, REGULATION
D INSURANCE OF THE COMMITTEE ON BANKING CURRENCY AND HOUSING OF THE
UNITED STATES HOUSE OF REPRESENTATIVES
ON THE
FINANCIAL REFORM BILL AND THE INTERNATIONAL BANKING BILL

If it is thought necessary, would it not be possible to provide r periodic review of existing multi-State operations by the new deral Banking Commission, or whatever the regulatory body is to be? such a suggestion were to be adopted, I should like to make three ovisos. First, there should be a presumption that an operation uld continue unless a review found reasons for its cessation; a nk can hardly provide a fully efficient service if it is continually ing required to justify its existence. By the same token, the view should not be too frequent - certainly not more often than ce every five years, and probably longer - because in the nature things, the structural situation would not be likely to change l that rapidly. Thirdly, if a review did show that the situation fecting a particular bank had changed dramatically enough to require consideration of its right to bank outside its principal State, en the bank would have to be given reasonable time to run down its mitments. Because the obligations it undertakes in the course normal business spread over a range of years, it would not seem me to be inappropriate to think in terms of a winding-up period some five to ten years from the date at which the need for osure was decided.

When it comes to the existing securities operations of foreign nks - and again I am not arguing against treating new entrants like mestic banks - I think that the same procedures for review might suitable. It is part (though only part) of the case against e arbitrary and enforced divestiture of these operations that the reign banks' share of the total securities market in the United ates is so small as to make such an upheaval for the institutions emselves quite unjustifiable. If there exists a desire on the rt of a small section of the US securities market to press a se for similar treatment of foreign banks, such a periodic review I have suggested would reduce it.

Senator McIntyre. Are there any further questions?

[No response.]

Senator McIntyre. Mr. Platten, I want to thank you and your associates for your patience in waiting here this morning, and your testimony. It was anticipated that you would be right to the point, and you were.

So I thank you all very, very much.

We will now recess subject to the call of the Chair.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]